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20TH CENTURY
BOOKKEEPING & ACCOUNTING

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and

Accounting

A TREATISE ON MODERN BOOKKEEPING, ACCOUNTING,
AND BUSINESS CUSTOMS, AS ILLUSTRATED IN THE
"BUSINESS TRANSACTIONS" WHICH
ACCOMPANY THIS TEXT

SEVENTH EDITION

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING
AND ACCOUNTING

BY JAMES W. BAKER
ASSISTED BY
COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS

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PREFACE

The successful business man should know that a profit will result from the transactions in connection with his business before they are completed. To determine this he should have such information as will show the detailed operating cost, the profit from trading or other operations, the net profit for each fiscal period, its source, and the increase or decrease over previous periods.

A report concerning the failure or suspension of a business, accompanied with the statement that the creditors will not know what percentage of their claim may be collected until the experts have audited the books, indicates that the management did not have all the facts available in connection with the business. Such a statement is so common in the newspaper announcement of failures that it suggests a connection between accounting and success.

If these conditions are to be improved, it is necessary to teach the correct principles of accounting and the best practice in applying them. The bookkeeping student of to-day is the bookkeeper or business man of to-morrow. If he has a knowledge of the correct principles, as bookkeeper, he will apply them, or, as manager, he will see that they are applied by the bookkeeper.

The purpose of this text is to present the correct principles of bookkeeping and accounting,—principles advocated and practiced by modern bookkeepers and accountants. The information upon which it is based was obtained from standard authorities on accounting and from consultations with practicing bookkeepers and accountants.

The text is prepared primarily for the student and not for the practicing bookkeeper or accountant. The presentation permits the beginner to master first, the simple principles of accounting as applied in a small business. When he understands these, he can then appreciate the more complicated principles of accounting necessary in recording the transactions for a business of extensive operations.

A study of the text would result in only a theoretical knowledge of the subject. Practice is necessary in applying the principles. This practice is provided in the sets that accompany the text. Each set has its outline of accounts based on the nature of the business and the number of transactions in connection therewith.

A correct knowledge of the principles is essential, but efficiency in applying this knowledge is of equal importance. The student who has mastered the principles of bookkeeping and accounting should have also acquired accuracy, neatness and speed. For this reason the working sets require the recording of a number of transactions,—a sufficient number to impress on the student's mind the importance of a correct record and to give him confidence and skill in applying his knowledge of the subject.

That the student may learn to recognize a transaction from the paper that represents it in business, he is required to make his record in the working sets from reproduced business papers. The transactions, moreover, are practical, and identical with those that occur in business. Applying the correct principles and recording practical transactions represented in the same manner as they are in business, gives the student a knowledge of the subject which will make his services desirable to the business man, and valuable to himself.

Not only should the student who has completed a course in bookkeeping and accounting understand the principles of the subject and the best practice in applying these principles, but he should also have some knowledge of the efficient methods employed in modern business. This knowledge, given in connection with the sets, includes special ruling in all books of original entry, carbon copy and loose leaf records, controlling accounts, and many other time-saving methods made popular by practicing bookkeepers.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper, it means the ability to record the greatest number of transactions with correct results in the least possible time. Throughout the text and sets, special attention is given to modern methods in recording transactions and preparing the work of the bookkeeper for the auditor.

The student who has mastered the principles in this text and completed the sets that accompany it, need not hesitate to accept a position as bookkeeper in any office. He can rest assured that the training received will have prepared him to make a correct record in an efficient manner. If the work of his predecessor has not been correctly done, he is prepared to improve the method in use. He can act with the assurance that the work he does will be approved by the accountant who audits his books.

THE PUBLISHERS.

Part One

BOOKKEEPING AND ACCOUNTING

§ 1. **Bookkeeping** is the systematic recording of the financial facts in regard to a business enterprise. If all the facts are recorded, they will show a complete history of the business, that is, the cash received and paid, property bought and sold, transactions with customers and creditors, expenses necessary in conducting the business, the profit resulting from its conduct, and the net profit or loss. There are two methods in use,—single entry and double entry.

§ 2. **Single Entry** is a method of bookkeeping in which all of the financial facts in regard to the business are not recorded. Usually only a record of cash and of the transactions with customers and creditors is kept. In order to show the financial condition of the business at any particular time, it is necessary to obtain additional information by an inventory or appraisal of the other property owned by the business.

§ 3. **Double Entry** is a method of bookkeeping in which a systematic record is made of all the financial facts in regard to the business. It is based on the principle that each transaction involves an exchange of equal value, and the record must show the value of property or services received and of the property or services given in return in each transaction.

The explanation of bookkeeping, accounting and accounts as given in the following sections refers to the double entry method.

§ 4. **Auditing** is verifying the results obtained by a bookkeeper, clerk, agent or any other person connected with the business whose duty it is to record transactions. It requires a thorough knowledge of bookkeeping, as it is not possible to verify the correctness of the results unless the one who does the auditing is thoroughly familiar with the manner of obtaining these results.

§ 5. **Accounting** is the science which treats of the proper recording, classification, presentation, and interpretation of the financial facts relating to a business enterprise.

The term accounting is more comprehensive than the term bookkeeping, and may be said to include the latter. Bookkeeping deals primarily with the recording of financial facts, while accounting treats of their classification, presentation and interpretation. The bookkeeping record is the medium through which the accounting results are obtained, while accounting prescribes how this record should be kept. Neither can be studied nor used independently of the other.

§ 6. **A Bookkeeper** is one who has a sufficient knowledge of the principles of bookkeeping and of business routine to correctly record business transactions. His duties may be to record all, or part of the transactions made in connection with the business. Thus in a small business, where only one bookkeeper is necessary, he may keep the books, make the bills and do all the other work required in connection with recording the transactions. Where the business is larger, and a number of bookkeepers are necessary in the office, one may record the sales, another the purchases, another the cash received and paid, and still others perform other parts of the bookkeeping routine.

§ 7. **An Auditor** is one who verifies the results of the bookkeeper, cashier, clerk, agent or other person who records transactions. An auditor may devote his entire time to auditing for the firm with which he is connected, or he may engage in public practice and make periodical audits for those who wish to employ his services. Large corporations, such as railroads, express companies and telegraph companies, employ auditors who devote all of their time to auditing the work of employees. The smaller corporations employ public auditors or accountants to make periodical audits of their records.

§ 8. **An Accountant** is one who is skilled in the theory and practice of accounting. His duty is to classify, interpret and present the financial facts provided by the bookkeeping record so that they will be of the greatest possible use to the management in the conduct of the business. In some cases he may be required to install new records or to correct those in use so that the financial facts may be recorded in a more systematic and intelligible manner. He must have a thorough knowledge of the principles of bookkeeping and accounting and a wide experience in the practical application of them.

§ 9. **A Certified Public Accountant** (C. P. A.). The work of the accountant is confidential, and the one who employs him has very limited means of knowing his ability. In order to avoid impostures by those who are not qualified to do accounting work, many states have passed laws providing for the examination of those who wish to do public accounting work. At least two years' experience in bookkeeping or accounting and a preliminary education equivalent to that of a four years' high school course are usually prerequisites to this examination. A person who has passed this examination is known as a "Certified Public Accountant." The fact that he has passed the examination is evidence to the one who is to employ him that he is qualified to do the required work.

§ 10. **The Object of all Investment** in business is profit—that is, an increase in the value of the property invested.

§ 11. **Property** is any object of value that a person, partnership, or corporation may lawfully acquire and hold. The business man regards it as money or anything that can be exchanged for money. Money is the medium of exchange and measure of value and all property is measured in terms of money.

§ 12. **An Asset** is property belonging to an individual, partnership, or corporation. All the property belonging to a business is its assets. *Cash*, money or any property that the bank will accept as money; *merchandise*, salable goods in stock; *notes*, written promises of others; and *personal accounts*, verbal promises of customers, are examples of the assets of a business.

§ 13. **A Liability** is a debt owed by an individual, partnership, or corporation. All the debts owed by a business are its liabilities. *Notes*, written promises to pay others; and *personal accounts*, verbal promises to pay debts created, are examples of the liabilities of a business.

§ 14. **A Profit** is an increase in the value of property invested at the beginning of the business or purchased afterwards. In a mercantile or trading business, the profit is brought about by buying merchandise at one price and selling it at a greater price. Profit derived from conducting a business is sometimes referred to as income.

§ **15.** **A Loss** is a decrease in the value of the property invested at the beginning of the business or purchased afterwards. If the total losses are more than the total profits, the business has been conducted at a loss. The cost of conducting a business is the principal loss, but is usually referred to as the operating cost. Failure to collect an account due from a customer is an example of a loss as the term is usually applied in connection with a business.

§ **16.** **A Business Transaction** is an exchange of values by which the financial condition of the business is affected. The usual transactions that occur in a mercantile or trading business are as follows:

First: An exchange of property for property. Second: An exchange of credit for property, that is, property purchased on account. Third: An exchange of property for credit, that is, a sale of property on account. Fourth: Property given in payment of an obligation. Fifth: Property received in payment of a debt. Sixth: An exchange of property for services. Seventh: An exchange of services for property.

§ **17.** **An Exchange of Property for Property.** In this class of transactions, property is received and property given in exchange for it.

¶ 1. *If no money is involved* on either side, the transaction is termed a "barter or trade."

¶ 2. *If property is exchanged* for money, the transaction is termed a "cash sale."

¶ 3. *If money is exchanged* for property, the transaction is termed a "cash purchase."

§ **18.** **An Exchange of Credit for Property.** In this class of transactions property is received but no property is given because credit is allowed the business.

¶ 1. *If an oral promise* to pay is given, the transaction is termed buying "on account."

¶ 2. *If a written promise* to pay is given, the transaction is termed buying "for a note."

§ **19.** **An Exchange of Property for Credit.** This class of transactions is the opposite of that described in § 18, that is, the business allows its property to go out in return for a promise of future payment.

¶ 1. *If an oral promise* of payment is received, the transaction is termed selling "on account."

¶ 2. *If a written promise* of payment is received, the transaction is termed selling "for a note."

§ **20.** **Property Given in Payment of an Obligation.** In this class of transactions those described in § 18 are canceled by fulfilling the contract.

¶ 1. *If the obligation is paid in full,* the transaction is termed "paid in full of account."

¶ 2. *If the obligation is only partially paid,* the transaction is termed "paid to apply on account."

§ **21.** **Property Received in Payment of a Debt.** This class of transactions completes those described in § 19 and represents the property that would have been received if credit had not been extended.

¶ 1. *If the obligation is paid in full,* the transaction is termed "received in full of account."

¶ 2. *If the obligation is partially paid,* the transaction is termed "received to apply on account."

§ 22. **Exchange of Property for Services.** When property is exchanged for services which are necessary in the conduct of the business, the transaction is termed a payment for "expense."

§ 23. **Exchange of Services for Property.** When property is received in exchange for services, the property received is termed "revenue" or "income."

§ 24. **An Account** is a record of all the transactions with any one person, any one kind of property, service, or revenue, collected under a specific heading. This heading is designated as the name of the account.

¶ 1. *An account is Named* in accordance with the nature of the property, service, or revenue which it represents. Money is usually termed *Cash* (Illustration No. 1); goods purchased for sale, *Purchases* (Illustration No. 4); money paid for conducting the business, *Expense* (Illustration No. 6); transactions with persons or firms, *Personal accounts*, each account bearing the name of the person or firm (Illustrations Nos. 2 and 3).

¶ 2. *An Account is Opened* by writing the name and the amount indicated in the transaction that creates it. When an account is opened with a particular kind of property, service, or revenue, it is necessary to keep a correct record of all the transactions with it, in order to secure the correct results. Thus, if money received is placed in a certain position in the Cash account at one time, and in the same position in the Purchases account at another time, neither of these accounts will be correct, because property of the same nature has been made to affect two different accounts.

¶ 3. *An account is closed* by ruling when both sides are equal. Accounts created by transactions are not closed until subsequent transactions cause the two sides to balance, unless it is desired to close them for some special purpose. The ruling under the first item on the left-hand side and the second item on the right-hand side of J. H. Henderson's account in Illustration No. 2 shows an account closed by a transaction; the red ink entry on the right-hand side of the Cash account in Illustration No. 1 shows an account made to balance.

§ 25. **Debits and Credits.** Transactions affect accounts in two ways, one opposite to the other. For this reason each account is divided into two sides,—the left-hand side termed the debit, and the right-hand side termed the credit. The ruling for each side is usually the same. In Illustrations Nos. 1-7 the debit side of each account is at the left of the heavy line in the center, and the credit side is at the right of this line. The terms debits and credits apply to the amounts as well as to the two sides of the account. Amounts recorded on the debit side are referred to as debits, and those recorded on the credit side, as credits.

§ 26. **The Balance of an Account** is the difference between the two sides and shows its value. The difference between the total receipts of cash as shown by the debit side of the Cash account and the total payments as shown by the credit side of this account, is the cash balance or amount of money on hand. The difference between the total charges to a customer as shown by the debit side of his account and the total credits as shown by the credit side, is the balance he owes. The difference between the total expenses as shown by the debit side of the Expense account, and any deductions as shown by the credit side, is the cost of operating the business. The balance of an account should show an *asset*, a *liability*, a *loss*, or a *profit*.

§ 27. **Valuation Accounts.** If the balance of a property account does not show the present value of the property, it is necessary to indicate the decrease in value by a special account termed a valuation (reserve) account. Such accounts are usually necessary in connection with accounts that show the value of property purchased for use in the business, because this property will of necessity decrease on account of its use. A typewriter which cost $100.00 January 1, 1917, would not be worth $100.00 December 31, 1917. Unless this decrease is shown by a valuation account the Statement of the Business at the end of the year will not be correct. Valuation accounts also apply to reserves set up to take care of loss through failure to collect notes due the business and accounts with customers.

§ 28. **Classification of Accounts.** Accounts are divided into two classes, real and nominal. Real accounts represent assets or liabilities; nominal accounts represent an income, an operating cost, a profit, or a loss.

Real accounts are personal or impersonal. Personal real accounts are accounts with individuals, partnerships, or corporations; impersonal real accounts are accounts with cash, real estate, notes receivable, notes payable and other property of this nature.

Special accounts, sometimes termed summary accounts, are necessary at the close of the fiscal period. These are constructed in connection with the closing of the ledger, and after all the accounts affecting the Profit and Loss statement are closed, they will remain in balance until the end of the next fiscal period. Profit and Loss, Accrued Liabilities and Accrued Assets are examples of summary accounts.

§ 29. **Asset Accounts.** An asset account shows the value of property belonging to the business. All of the asset accounts show the total value of the property or assets of the business. Since property is purchased for two different purposes, there are two kinds of asset accounts; one shows the value of property brought about by the purchase and sale of commodities in which the business deals; the other, the value of property bought to be used in the business, and not for sale. The former is termed the "Current or Active Assets," and the latter, the "Fixed Assets."

¶ 1. *Current or Active Asset Accounts.* The object of these accounts is to show the value of property belonging to the business, which was brought about by the regular operations. This property is usually represented by the following accounts: Cash, Merchandise Inventory, Notes Receivable, Accounts Receivable, Securities Owned, Installment Contracts. As some of these asset accounts may not show the true value of the property, it may be necessary to have valuation or reserve accounts as follows: Reserve for Doubtful Accounts; Reserve for Doubtful Notes; Reserve for Loss on Canceled Sales.

¶ 2. *Fixed Asset Accounts.* The object of these accounts is to show the value of property purchased for use in the business, but not for sale. In every business it is necessary to purchase this class of property. The merchant must have the proper equipment in his office and storeroom; the railroad company must have cars and engines for hauling freight and passengers, mail and express; the telegraph company must have telegraph instruments, wires, office equipment and other property necessary for the successful conducting of the business. In the average trading or mercantile business, the following accounts usually represent the fixed investments: Land, Buildings, Store Fixtures, Office Equipment, Furniture and Fixtures, and Delivery Equipment. Since property purchased for use in the business will, of necessity, decrease in value on account of its use, it is necessary to have a Valuation or Reserve account to show the amount of this decrease. In the above accounts there would be the following: Reserve for Depreciation of Buildings, Store Fixtures, Office Equipment, Furniture and Fixtures, and Delivery Equipment.

¶ 3. *At the Close of the Fiscal Period* there may be some property belonging to the business which is not shown on the books. This may be interest accrued on notes or accounts due the business, accrued rent, telephone services paid in advance, unexpired insurance, and similar items. These should be shown on the Balance Sheet as Accrued Assets or Deferred Charges to Operations according to their nature.

§ **30. Liability Accounts.** The object of these accounts is to show the obligations owed by the business. There are two classes of indebtedness: verbal promises (accounts payable), and written promises (notes payable). Liability accounts, like asset accounts, are divided into two classes: Current and Fixed.

¶ 1. *Current Liability Accounts.* The object of these accounts is to show the liabilities which will mature or become due in the near future. The current liabilities are usually represented by the Accounts Payable and Notes Payable accounts.

¶ 2. *Fixed Liability Accounts.* The object of these accounts is to show the liabilities which will not mature or become due in the near future. The fixed liabilities are usually represented by the Mortgages Payable and Bonds Payable accounts.

¶ 3. *At the Close of the Fiscal Period* there may be outstanding obligations that are not shown on the books, such as accrued interest on notes or accounts owed by the business, pay roll earned by employees but not paid, rent due, etc. There may also be income shown on the books which is not all earned, such as interest received in advance, subscriptions unexpired, and similar items. These are shown on the Balance Sheet as Accrued Liabilities or as Deferred Credits to Income.

§ **31. Investment Accounts.** The object of these accounts is to show the investment at the beginning of the business, subsequent investments and accumulated profits, or losses. The investment may be made by one person, two or more persons acting under a partnership agreement, or three or more persons associated together as a corporation. The investment account in an individual or partnership business is given the name of the individual owner or partner, and the word "Capital" is written after the name to indicate that it is the investment account. The investment in a corporation is shown by the Capital Stock account, and the Surplus account.

§ **32. Income or Revenue Accounts.** The object of these accounts is to show the profit derived from the regular operations of the business. These are usually represented by the following: Merchandise, or Purchases and Sales, in a mercantile business, Loans and Discounts in a banking business, Circulation in a newspaper business, Toll Service in a telephone or telegraph business, and Advertising in a business engaged in selling advertising service.

§ **33. Operating Accounts.** The object of these accounts is to show the operating cost or "Expense" of conducting the business. The expenses of the business may be represented by one Expense account or divided into two general classes: General Administrative Expense and Selling Expense. The *general administrative expense* refers to the amounts paid for conducting the business, such as rent, bookkeepers' and stenographers' salaries, officers' salaries, heat, light, and similar items. The *selling expense* refers to amounts paid for securing sales. The following accounts are usually represented in each class:

¶ 1. *General Administrative Expense* may be represented by *one* account, or by several accounts, such as, Officers' Salaries, Office Expense, Office Supplies, Directors' Fees, Insurance on Office Equipment, Rent, General Postage, Legal Advice, Heat, Light, Depreciation on Office Equipment, Office Supplies Used, Repairs on Office Equipment, and Incidentals.

¶ 2. *Selling Expense* may be represented by *one* account, or by several accounts, such as Advertising, Salesmen's Salaries, Agents' Commissions, Traveling Expense, Credit Man's Salary, Clerk Hire in the Sales Department, Freight Out, Drayage, Delivery Expense, Shipping Department Expense, Postage in the Selling and Advertising Department, and Depreciation on Delivery Equipment.

§ 34. **Special Profit or Income Accounts.** The object of these accounts is to show the special income that is not derived from the regular operations of the business. These are represented by such accounts as Interest, Commission, Profit on Real Estate, and Dividend.

§ 35. **Special Loss Accounts.** The object of these accounts is to show special losses that are not due to the regular operations of the business. They are represented by such accounts as Loss on Doubtful Accounts, and Interest Paid on Borrowed Capital.

QUESTIONS.

1. Define bookkeeping and state its purpose. (§ 1.)
2. Define the single entry method. (§ 2.) Double entry method. (§ 3.)
3. Define auditing. (§ 4.) Accounting. (§ 5.)
4. State the duties of the bookkeeper; the auditor; the accountant. (§§ 6-8.)
5. Who is a certified public accountant? (§ 9.)
6. What is the object of investment? (§ 10.)
7. Define property. (§ 11.)
8. What is an asset? (§ 12.) A liability? (§ 13.)
9. What is a profit? (§ 14.) A loss? (§ 15.)
10. Define a business transaction. (§ 16.)
11. What is meant by a barter? A cash sale? A cash purchase? (§ 17, ¶¶ 1-3.)
12. What is meant by buying on credit? On account? For a note? (§ 18, ¶¶ 1 and 2.)
13. What is meant by selling on credit? On account? For a note? (§ 19, ¶¶ 1 and 2.)
14. What is meant by paying an obligation in full? On account? (§ 20, ¶¶ 1 and 2.)
15. What is meant by expense? (§ 22.) By income or revenue? (§ 23.)
16. Define an account. How is it named? Opened? Closed? (§ 24, ¶¶ 1-3.)
17. What is meant by debit and credit? (§ 25.)
18. What is the "Balance" of an account? What does it show? (§ 26.)
19. Why are valuation accounts necessary? (§ 27.)
20. Give the classification of accounts and define each class. (§ 28.)
21. What are asset accounts? (§ 29.) Distinguish between current and fixed asset accounts. (§ 29, ¶¶ 1-2.)
22. What are liability accounts? (§ 30.) Distinguish between current and fixed liabilities. (§ 30, ¶¶ 1 and 2.)
23. What is the object of the investment account? (§ 31.)
24. What are income accounts? (§ 32.) Operating accounts? (§ 33.)
25. What are special income accounts? (§ 34.) Special loss accounts? (§ 35.)

OUTLINE OF ACCOUNTS USED IN THE INTRODUCTORY SET.

Current Assets........	Cash. Inventory of Merchandise. Notes Receivable. Accounts Receivable.
Fixed Assets..........	Furniture and Fixtures. Land. Buildings.
Current Liabilities.....	Notes Payable. Accounts Payable.
Capital..............	W. H. Goodwin.
Trading (Income).....	Purchases. Sales. Inventory of Merchandise.
Operating............	Expense. Building Expense and Revenue.
Special Profit or Loss.	Interest. Profit on Real Estate.

ACCOUNTS.

§ 36. **Introduction.** Every business transaction affects two accounts in the ledger. To determine which accounts a transaction affects, it is necessary to have a thorough knowledge of the different accounts, their purpose, and for what they are debited and credited. In the following sections the accounts which are used in the introductory work are explained, and exercises are given for practice in applying the principles involved. The purpose of these exercises is to illustrate the various debits and credits applicable to each account and the method of recording transactions. If the student does not know the purpose of an account, the various debits and credits applicable to it, and the method of closing, he can not be expected to intelligently record transactions as they occur. Additional accounts will be treated in the same manner, as transactions are introduced which require their use.

CASH ACCOUNT.

§ 37. **The Object of this Account** is to show a record of all cash received and paid, and the balance on hand. Cash is money or any commercial paper that the banks will accept at its face value as money. The latter includes personal checks, bank drafts, cashier's checks, postoffice and express money orders, etc. (§ 94, ¶¶ 1—6.)

Debit the Cash Account:	*Credit the Cash Account:*
¶ 1. For the balance of cash on hand at the beginning of the business.	¶ 3. For cash paid with currency or by check.
¶ 2. For cash received.	

¶ 4. *The Balance of this Account* shows the amount of cash on hand; this may be in the safe, in the bank, or a part in each place. It is shown as a current asset on the Balance Sheet.

¶ 5. *To Close the Cash Account.* Write with red ink* on the credit side the date, the word "Balance," and the amount of the cash balance which is the difference between the two sides of the account. Rule the account with single and double red lines and enter the total of each side between these lines. On the debit side, on the first blue line below the ruling, write with black ink the date (the business day following the closing), "Balance," and the amount of the cash balance. A check mark in the folio column indicates that the amount is brought down on the same page. See Illustration No. 1.

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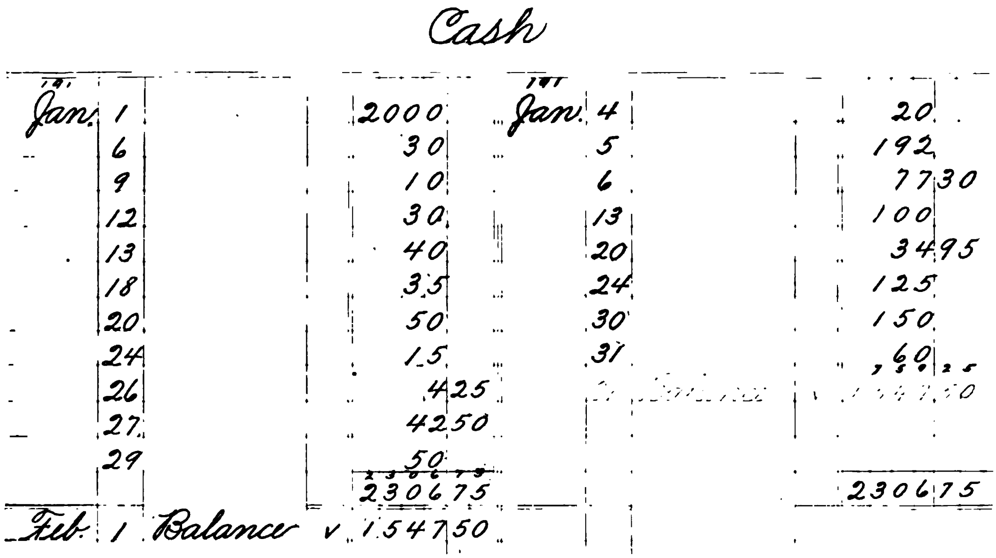
*THE USE OF RED INK in bookkeeping is optional with the bookkeeper. When preferred, it is used for all ruling and, for the facts concerning an amount which is entered to close an account. Unless otherwise instructed by the teacher the student will use red ink for all work of this kind.

Correct ruling adds much to the appearance of a set of books. The best effect is obtained when the single line extends under the dollars and cents columns only, and the double lines across all vertical lines except the explanation column, which is the wide column between the date and amount.

The best results in ruling are obtained by laying the rule with the brass edge up and toward the front. The rule is held in position with the left hand and the line drawn by moving the pen from left to right, the pen gliding across the brass edge of the rule. By changing the angle of the pen, double lines may be ruled without moving the rule.



Cash

191						191					
Jan.	1			2000		Jan.	4			20	
	6			30			5			192	
	9			10			6			77	30
	12			30			13			100	
	13			40			20			34	95
	18			35			24			125	
	20			50			30			150	
	24			15			31			60	
										7 5 9	2 5
	26			4	25			Balance	✓	1547	50
	27			42	50						
	29			50							
				2 3 0 6	7 5						
				2306	75					2306	75
Feb.	1	Balance	✓	1547	50						

Illustration No. 1, Cash Account for Exercise No. 1.

Exercises in the Cash Account. Prepare a Cash account for each of the three exercises. Use ledger paper, that is, paper ruled similar to Illustration No. 1. Exercise No. 1 is the same as Illustration No. 1. The various entries illustrate the special debits and credits described in § 37, ¶¶ 1, 2 and 3. References are given only when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 1, Cash Account.

Jan. 1. W. H. Goodwin invested $2,000.00 in cash (¶ 1).
4. Paid $20.00 for city license (¶ 3).
5. Paid City Milling Co. $192.00 for flour (¶ 3).
6. Received for cash sales, $30.00 (¶ 2); paid Borches & Co. $77.30, in full (¶ 3).
9. Received $10.00 from A. R. Jennings (¶ 2).
12. Received $30.00 from Central Hotel.
13. Received for cash sales, $40.00; paid Kaiser Bros. $100.00(¶ 3).
18. Received $35.00 from M. A. Johnson (¶ 2).
20. Paid Kaiser Bros. $34.95 (¶ 3); received for cash sales, $50.00 (¶ 2).
24. Received $15.00 from Central Hotel (¶ 2); paid Hazen & Lotspeich $125.00 (¶ 3).
26. Received $4.25 from A. R. Jennings.
27. Received for cash sales, $42.50.
29. Received $50.00 from C. L. Loyd.
30. Paid Borches & Co. $150.00 (¶ 3).
31. Paid sundry expenses, $60.00.

Enter the cash balance, $1,547.50 on the credit side, rule and foot the account, and bring the balance down on the debit side as shown in Illustration No. 1.

Exercise No. 2, Cash Account.

Feb. 1. C. H. Hobson invested $2,500.00 in cash (¶ 1); paid $1,186.45 for merchandise (¶ 3).
2. Paid rent, $40.00; paid salaries, $30.00; received from Oxford Hotel, $100.00 (¶ 2).
3. Paid $50.00 for scales (¶ 3); paid $350.00 for team of horses and wagon.
5. Received for cash sales, $327.56 (¶ 2).
6. Gave the Hall Safe Company check for $150.00 for safe (¶ 3).
7. Received for cash sales, $175.46; paid driver $18.00.
8. Paid telephone rent, $10.00; received from Oxford Hotel, $150.00.
9. Received for cash sales, $95.00; paid $25.00 for office desk.
10. Paid $237.50 for merchandise; received for cash sales, $156.75; received from Chas. C. Lundy, $40.00.
12. Gave Jones Bros. a check in payment for merchandise, $62.85; received from Robert A. Dow, $25.00.
13. Received for cash sales, $297.36; paid sundry expenses, $38.50.
Balance on hand, $1,668.83.

Exercise No. 3, Cash Account.

Mar. 1. A. L. Graham invested $3,500.00 in cash (¶ 1).
2. Paid by check for team and wagon, $300.00 (¶ 3).
3. Paid by check for office and store fixtures, $650.00.
5. Received for cash sales, $304.87; paid cash for merchandise, $1,500.00.
6. Received from Caleb Barber, $50.00; paid sundry expenses, $127.00.
7. Paid $150.00 for safe; received from O. H. Arnold, $64.00.
8. Cash purchase, $330.75 (¶ 3); received for cash sales, $204.18.
9. Received from H. F. Ritter, $15.00; cash purchase, $28.65.
10. Received for cash sales, $264.85; received from O. B. Donaldson, $50.00.
12. Received for cash sales, $15.79; gave Belknap Hardware Co. a check for $629.87.
14. Paid sundry expenses, $72.50; paid C. R. Crawford, $75.00.
15. Received from H. F. Ritter, $20.00; borrowed $1,000.00 from the bank.
16. Paid by check Simmons Hardware Co., $526.48 (¶ 3); gave McClung Hardware Co. a check for $200.00.
17. Paid by check Green Construction Co., $31.65; cash purchase of merchandise, $304.05.
19. Received for cash sales, $421.65; paid sundry expenses, $54.25.
Balance on hand, $930.14.

PERSONAL ACCOUNTS.

§ 38. **Personal Accounts** show the result of transactions with individuals, partnerships, or corporations. They are made necessary by the purchase and sale of property on account. They are divided into two classes: one (accounts with customers) shows the result of transactions with the persons to whom property has been sold on account, and the other (accounts with creditors) shows the result of transactions with those from whom property has been purchased on account.

ACCOUNTS WITH CUSTOMERS.

§ 39. **The Object of these Accounts** is to show the balance due from each customer to whom the business sells property on account. Separate accounts are kept with each person, partnership, or corporation.

Debit Customers:

¶ 1. For amounts due from customers at the beginning of the business.

¶ 2. For the value of property sold on account.

¶ 3. For freight paid by us unless we agreed to deliver the property at the customer's freight station.

[illegible]

20.

Credit Customers:

¶ 4. *For cash they pay us on account.

¶ 5. For notes they give us signed by them or signed by others and transferred to us.

¶ 6. For time drafts they accept, or sight drafts paid by them, which are drawn by us to apply on account.

¶ 7. For rebates allowed by us for *shortages, overcharges, damaged goods or goods returned.* (These items are represented by credit bills sent by us.)

¶ 8. For freight charges paid by them, when we agreed to deliver the goods at their freight station.

¶ 9. For discount deducted as indicated by ~~the~~ terms on the bill.

¶ 10. For special deductions made in settlement when the full amount can not be collected.

¶ 11. *The Balance of a Customer's Account* shows the amount he owes. It is shown as a current asset on the Balance Sheet.

¶ 12. *To Close a Customer's Account.* A customer's account is not closed until it is paid in full, unless it is desired to rule the account and transfer the balance to a new page. When the account balances by payment, it is ruled at the point where it balances with a single red line under the dollars and cents columns on each side as shown in Illustration No. 2.

If the account is made to balance, the balance together with the date and the word "Balance" is entered on the credit side, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink on the debit side of the account on the new page. If closed direct, the balance is written with red ink as in Illustration No. 1; if closed by journal entry, it is written with black ink.

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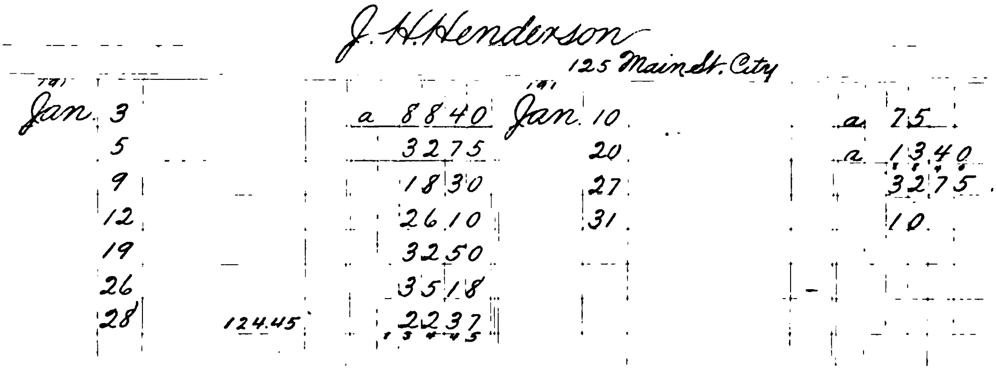
*NOTE. A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to be applied to any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is allowed by placing a letter at the left of the amount of the item on the debit side, and place the same letter to the left of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different charges. Each payment on the first charge is indicated by the letter "a;" each payment on the second charge is indicated by the letter "b" on each side. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. The student will understand this better by referring to Exercise No. 4 and Illustration No. 2.

The same method is used to indicate payments made to a creditor, or partial payments on notes.



J. H. Henderson

125 Main St. City

Jan.	3		a 88 40	Jan.	10		a 75
	5		32 75		20		a 13 40
	9		18 30		27		32 75
	12		26 10		31		10
	19		32 50				
	26		35 18				
	28	124.45	22 37				
			134 45				

Illustration No. 2, Account with J. H. Henderson, Exercise No. 4.

Exercises in Customers' Accounts. Prepare on ledger paper an account for each of these three exercises. Exercise No. 4 is the same as Illustration No. 2. The work presented to the teacher should show each debit and credit entry, the total of the debit side below the last ruling, the total of the credit side below the last ruling, and the balance. References are given to § 39 when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 4, J. H. Henderson, 125 Main St., City

Jan. 3. Sold J. H. Henderson on account, a bill of merchandise amounting to $88.40 (¶ 2).
5. Sold on account, $32.75 (¶ 2).
9. Sold on account, $18.30.
10. Received cash on bill charged on the 3d, $75.00 (¶ 4).
12. Sold on account, $26.10 (¶ 2).
19. Sold on account, $32.50.
20. Received $13.40 in full for balance of bill charged on the 3d. (Rule as shown in Illustration No. 2.)
26. Sold on account, $35.18.
27. Received cash in full of bill charged on the 5th, $32.75.
28. Sold on account, $22.37.
31. Received on account, $10.00 (¶ 4).

Exercise No. 5, Walter Rogers, San Francisco.

Feb. 2. Balance due from Walter Rogers, $62.75 (¶ 1).
9. Sold on account, $116.95 (¶ 2).
12. Received cash on account of balance due, $25.25 (¶ 4).
14. Sold on account, $22.65.
16. Allowed a credit of $2.00 for goods damaged in bill charged on the 9th.
18. Received cash, $37.50, in full for balance due February 1st.

While this transaction pays all of the old balance, yet the account can not be ruled because there is a credit on another bill.

(*Concluded on page 18.*)

(Exercise No. 5—Continued from page 17.)

Feb. 19. Sold on account, $94.36.
20. Sold on account, $16.95.
24. Received check for $114.95, in payment of balance due on bill charged on the 9th (¶ 4).

Foot the first two items on the debit side, and the four items on the credit side, and enter the totals in small pencil figures. You will observe that these totals are the same. Rule the account by drawing a single red line beneath the first two items on the debit side, and the four items on the credit side.

25. Sold on account, $39.62.
26. Received cash in full for bill charged on the 14th, $22.65.
27. Received cash to apply on bill charged the 19th, $35.00, and allowed freight charges on the same bill amounting to $4.65 (¶¶ 4 and 8); sold on account, $69.27.
28. Received check to pay bill charged on the 20th, $16.95; received $30.00 to apply on bill charged on the 19th.

Exercise No. 6, Hammond Bros., Denver.

Mar. 2. Sold Hammond Bros., on ten days' time, $261.45.
5. Sold on ten days' time, $86.45.
9. Sold on thirty days' time with a discount of 3 per cent if paid in ten days, $117.26. (Indicate terms by writing in the explanation column, "3/10, n/30.")
10. Allowed a credit of $14.60 for goods returned from those purchased on the 5th (¶ 7). (Indicate the credit and the charge by the letter "a.")
14. Received 30-day note for $261.45, in payment of bill charged on the 2d (¶ 5).

The account can not be ruled, even though one bill is paid in full, on account of the credit for returned goods.

17. They accepted our three-day draft for balance due on bill charged on the 5th, $71.85 (¶ 6).

Foot the first two amounts on the debit side, and the three amounts on the credit side, and place the totals in small pencil figures just beneath the blue line. You will note that these totals are the same. Draw a single red line on each side to indicate that the account balances at this point.

18. Sold on thirty days' time, $116.95.
19. Received check for $113.74 in payment for bill charged the 9th, less 3 per cent discount, $3.52 (¶¶ 4 and 9). (Enter the two amounts.)
23. Sold on ten days' time, $58.42.
24. Allowed a credit for freight on bill charged on the 23d, $5.16 (¶ 8).
25. They transferred W. H. Smith's note for $25.00 to apply on account (¶ 5).
26. Paid $9.65 freight bill for goods sold on the 18th. This was prepaid according to agreement, and is to be charged to his account (¶ 3).
27. Received 20-day note in full for bill charged the 18th, $126.60 (¶ 5).
28. Sold on account, $123.00.
30. Sold on thirty days' time, $130.18.

ACCOUNTS WITH CREDITORS.

§ 40. **The Object of these Accounts** is to show the balance due each creditor from whom property is purchased on account. A separate account is kept with each person, partnership, or corporation from whom credit is received.

Debit Creditors:

¶ 1. For cash paid them to apply on account.
¶ 2. For notes given them to apply on account.
¶ 3. For (a) sight drafts drawn by them and paid by us, and (b) time drafts drawn by them and accepted by us.
¶ 4. For notes of others transferred to them by our endorsement, on account.
¶ 5. For rebates allowed by them on account of *damaged goods, shortages, overcharges and returned goods.* (These are usually represented by credit bills sent by them.)
¶ 6. For discounts deducted from invoices as indicated by the terms.
¶ 7. For freight *paid by us* on goods they contract to *deliver.*
¶ 8. For special deductions in settlements when we are insolvent.

Credit Creditors:

¶ 9. For amounts due them at the beginning of the business.
¶ 10. For the value of property purchased from them on account.
¶ 11. For freight paid by them and charged to us.

Roberts Bros.
New York

191			191			
Jan.	10	416 40	Jan.	1		416 40
	12	a 4 00		5	15 days	a 825 59
	17	a 425 59		11	10 "	b 786 99
	20	b 3 00		12	15 "	350 65
		c 16 50		16	15 "	c 372 65
	27	b 486 99		18	30 "	204 48
	28	350 65		25	30 "	316 95
		c 2 00		29	60 "	521 64
	31	c 156 15				

Illustration No. 3, Account with Roberts Bros., Exercise No. 7.

¶ 12. *The Balance of a Creditor's Account* shows the amount owed to him. It is shown as a current liability on the Balance Sheet.

¶ 13. *To Close a Creditor's Account.* A creditor's account is not closed until it is paid in full unless it is desired to rule the account and transfer the balance to a new page: When the account balances by payment, it is ruled at the point where it balances with a single red line under the dollars and cents columns on each side as shown in Illustration No. 3.

If the account is made to balance, the balance, together with the date and the word "Balance," is entered on the debit side, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink on the credit side of the account on the new page. If closed direct, the balance is written with red ink as in Illustration No. 1; if closed by journal entry, it is written with black ink.

Partial payments are indicated as explained in the *note* under § 39.

Exercises in Creditors' Accounts. Prepare on ledger paper an account for each of these three exercises. Exercise No. 7 is the same as Illustration No. 3. The work presented to the teacher should show each debit and credit entry, the total of the debit side below the last ruling, the total of the credit side below the last ruling, and the balance. References are to § 40, these being given only when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 7, Roberts Bros., New York.

Jan. 1. Bought from Roberts Bros., $416.40 (¶ 10).
5. Bought on fifteen days' time, $825.59.
10. Paid invoice of the 1st by check, $416.40. (Rule the account by drawing a single red line just beneath the amount on each side of the account. See Illustration No. 3.)
11. Bought on ten days' time, $786.99.
12. Paid $400.00 on invoice purchased the 5th (¶ 1); bought on fifteen days' time, $350.65.
16. Bought on fifteen days' time, $372.65.
17. Gave them check for $425.59, balance due on invoice received the 5th (¶ 1). (Rule the account as shown in Illustration.)
18. Bought on thirty days' time, $209.48.
20. Paid $300.00 on invoice purchased the 11th; received credit memorandum for $16.50, for damaged goods on invoice of the 16th (¶ 5).
25. Bought on thirty days' time, $316.95.
26. Gave them check for balance due on invoice of the 11th, $486.99 (¶ 1).
27. Gave them check to pay invoice of the 12th, $350.65; paid $200.00 on invoice purchased on the 16th.
29. Bought on sixty days' time, $521.64.
31. Gave them check in full for balance due on invoice of the 16th.

Exercise No. 8, Mays & Hickman, Chicago.

Feb. 1. Bought of Mays & Hickman on account, merchandise per invoice of this date, $316.92.
3. Bought on thirty days' time, $217.36.
6. Paid cash on invoice of the 1st, $200.00 (¶ 1).
7. Received credit bill for goods returned from invoice of the 3d, $32.65 (¶ 5).
9. Paid balance of invoice of the 1st, $116.92.
10. Bought on thirty days' time, with the privilege of 3 per cent discount for payment within ten days, $399.67.

Indicate the terms in the explanation column by writing 3/10, n/30.

12. Gave them check for balance due on invoice of the 3d, $184.71 (¶ 1).

Foot the four items on the debit side, and the first two on the credit side. The totals should be equal. Rule as previously instructed.

(*Concluded on page 21.*)

(*Exercise No. 8—Continued from page 20.*)

Feb. 15. Purchased on account, $409.16.

16. Paid freight on invoice of the 15th and charged to their account as per agreement, $26.37.

19. Paid $150.00 on the invoice purchased the 15th.

20. Purchased on thirty days' time, with the privilege of 3 per cent discount for cash in ten days, $527.62.

22. Paid invoice of the 10th, less discount; the amount of the check is $387.68, discount, $11.99 (¶¶ 1 and 6).

Enter the two amounts, and in the explanation column, on the same line as the amount of the check, write "Check;" and on the line with the discount, "Discount."

26. Purchased on account, $234.81.

27. Gave check to pay balance due on invoice purchased the 15th, $232.79.

The five items on the debit side below the ruling should balance the first two items below the ruled line on the credit side. You will note that invoice purchased on the 15th was paid by freight, $26.37, cash, $150.00, and check, $232.79. The invoice of the 10th was paid by check and discount.

28. Paid invoice of the 20th by check, $511.79 and discount, $15.83; bought on account, $176.29.

Exercise No. 9, J. B. Jones & Co., St. Louis.

Mar. 1. Purchased of J. B. Jones & Co., on ten days' time, merchandise per invoice of this date, $116.92.

2. Purchased on sixty days' time, with the privilege of 3 per cent for cash in ten days, $186.25.

3. Paid freight on invoice received the 1st and charged to their account, per agreement, $9.10 (¶ 7).

5. Bought on thirty days' time, $209.11.

6. Received credit memorandum for goods returned from invoice of the 2d, $28.65 (¶ 5).

9. Accepted their ten-day draft for balance due on invoice purchased the 1st, $107.82 (¶ 3).

10. Bought on ten days' time, $436.50.

12. Paid invoice of the 2d, less 3 per cent; amount of check, $152.87, discount, $4.73 (¶¶ 1 and 6).

The discount is calculated on the amount of the invoice less the goods returned, as it would not be right to take discount on the value of the latter.

15. Transferred to them J. B. Jones' note for $100.00 to apply on invoice of the 5th.

16. Bought on thirty days' time, $227.65.

17. Accepted their three-day draft in payment of invoice purchased on the 10th.

19. Bought on account, $427.62.

20. Gave them our note due in thirty days for $109.11, balance due on invoice of the 5th (¶ 2).

21. Bought on sixty days' time, with the privilege of 3 per cent discount for cash in ten days, $627.42.

22. Paid freight $52.65 on invoice of the 21st, and charged to their account, per agreement; bought on thirty days' time, $418.26.

23. Received credit memorandum for $106.42, goods returned from invoice of the 22d.

24. Gave them check for $127.62, and thirty-day note for $300.00, to pay invoice purchased on the 19th.

(*Concluded on page 22.*)

(*Exercise No. 9—Continued from page 21.*)

Mar. 26. Bought on thirty days' time, $207.30.

27. Accepted twenty-day draft for $311.84 for balance due on invoice received the 22d (¶ 3); paid invoice of the 21st, less 3 per cent discount; amount of check, $555.95, discount, $18.82 (¶¶ 1 and 6).

The discount is calculated on the full amount of the bill, because the charge is for freight paid by us which should have been paid by them.

30. Bought on sixty days' time, with the privilege of 3 per cent if paid in thirty days, $416.25.

MERCHANDISE ACCOUNTS.

§ **41. Merchandise** is a general term applied to goods bought and sold in a mercantile or trading business, such as groceries, dry goods, hardware, etc. Merchandise bought is termed Purchases, merchandise sold is termed Sales, and the merchandise on hand at the beginning or end of a fiscal period is termed an Inventory. Merchandise purchased, but later returned to the one from whom it was bought, is known as Returned Purchases, and merchandise sold, but later returned by the one to whom it was sold, is known as Returned Sales. Returned purchases and sales arise from the fact that the merchandise received by the purchaser may not agree with what he ordered or it may have been damaged in transit, and the seller agrees to its return.

If desired, one account may be kept with Merchandise, which will show all the facts relating to its purchase and sale and the results thereof. However, if this is done, it causes returned sales to be recorded as if they were purchases and returned purchases to be recorded as if they were sales, which is incorrect. It also requires the cost price to appear on the debit side and the sale price on the credit side of the same account, which is contrary to the accounting principle that equal values should appear on each side of the same account, as in cash and accounts with customers. For these and other reasons discussed later in the course, separate accounts are kept with transactions affecting purchases, and those affecting sales.

PURCHASES ACCOUNT.

§ **41a. The Object of this Account** is to show the cost of merchandise purchased. This includes those articles purchased for sale in the regular conduct of the business, and such articles on hand at the beginning of the business or fiscal period.

Debit the Purchases Account:

¶ 1. For the value of merchandise on hand at the beginning of the business or of the fiscal period.

¶ 2. For the invoice cost of merchandise purchased.

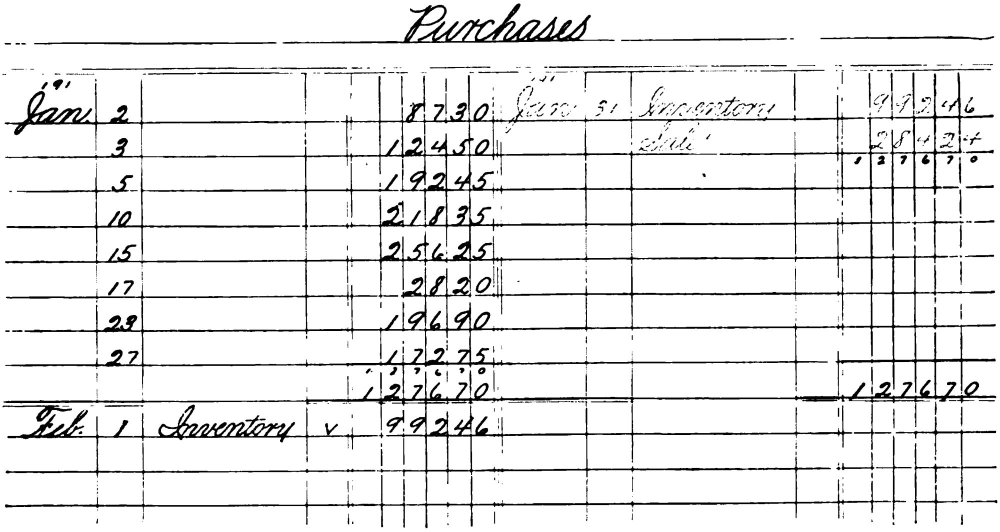
¶ 3. For amounts paid for freight, drayage, and storage of merchandise purchased.

Credit the Purchases Account:

¶ 4. For the cost of merchandise returned to the seller for credit.

¶ 5. *The Difference Between the Two Sides of this Account* shows the net cost of merchandise purchased which includes the inventory at the beginning of the period, and the purchases and freight cost during the period. The inventory at the beginning of the period (¶ 1), the purchases (¶ 2), the freight and drayage (¶ 3), the returned purchases (¶ 4), and the inventory at the end of the period, are shown on the Profit and Loss Statement. The Inventory at the end of the period is also shown on the Balance Sheet.

¶ 6. *To Close the Purchases Account.* When the ledger is closed the Purchases account is credited with the value of the merchandise on hand. The difference between the two sides will then show the net cost of merchandise sold and is transferred to the debit side of the Sales account. The Purchases account will then balance and it is ruled with single and double red lines and footed with black ink.



Purchases

191									
Jan.	2			87 30	Jan.	31	Inventory		992 46
	3			124 50			Sale		284 24
									1276 70
	5			192 45					
	10			218 35					
	15			256 25					
	17			28 20					
	23			196 90					
	27			172 75					
				1276 70					
				1276 70					1276 70
Feb.	1	Inventory	✓	992 46					

Illustration No. 4, Purchases Account for Exercise No. 10.

SALES ACCOUNT.

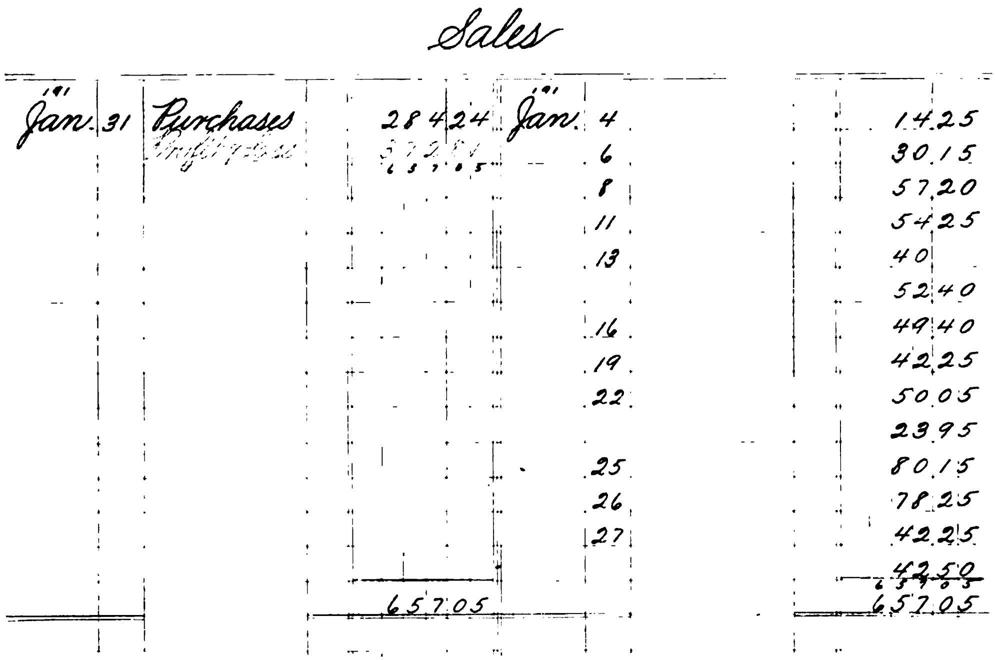
§ **41b. The Object of this Account** is to show the amount received from the sale of merchandise. This includes those articles purchased for sale, the cost of which was charged to the Purchases account at the time they were purchased.

Debit the Sales Account:	*Credit the Sales Account:*
¶ 1. For the selling price of merchandise returned by customers for credit.	¶ 2. For the selling price of merchandise sold.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net returns from sales. The total sales (credit side) and the returned sales (debit side) are shown on the Profit and Loss statement.

¶ 4. *To Close the Sales Account.* When the ledger is closed the Sales account is debited with the net cost of merchandise sold as shown by the Purchases account. The difference between the two sides then shows the net profit or net loss on sales, and is transferred to the Profit and Loss account. The Sales account will then balance and it is ruled with single and double red lines and footed with black ink.

NOTE. Where the two accounts are kept, one with Purchases and the other with Sales, the inventory or value of merchandise on hand at the close of the fiscal period is shown on the debit side of an Inventory account as well as on the credit side of the Purchases account. After the books are closed, the Inventory account is closed into the Purchases account as explained in § 41a, ¶ 1.



Sales

191				191		
Jan.	31	Purchases	284 24	Jan.	4	14 25
		Profit & Loss	372 81 6 5 7 0 5		6	30 15
					8	57 20
					11	54 25
					13	40
						52 40
					16	49 40
					19	42 25
					22	50 05
						23 95
					25	80 15
					26	78 25
					27	42 25
						42 50 6 5 7 0 5
			657 05			657 05

Illustration No. 4a, Sales Account for Exercise No. 10.

Exercises in Merchandise Accounts. Prepare on ledger paper a Purchases and a Sales account for each of the three exercises. Exercise No. 10 is the same as Illustrations No. 4 and 4a. When the work is presented to the teacher, each account should be ruled similar to the illustrations, and the inventory brought down on the debit side of the Purchases account. References are given to §§ 41a and 41b when the student may be in doubt as to the account to be debited or credited.

Exercise No. 10, Purchases and Sales Accounts.

Jan. 2. Bought merchandise from Borches & Co., $87.30 (§ 41a, ¶ 2).
3. Bought merchandise from Kaiser Bros., $124.50.
4. Sold merchandise to A. R. Jennings, $14.25 (§ 41b, ¶ 2).
5. Bought merchandise from City Milling Co., $192.45.
6. Cash sales of merchandise, $30.15 (§ 41b, ¶ 2).
8. Sold Central Hotel, $57.20.
10. Bought merchandise from Hazen & Lotspeich, $218.35.
11. Sold merchandise to A. R. Jennings, $54.25.
13. Cash sales of merchandise, $40.00; sold merchandise, $52.40.
15. Bought merchandise from Borches & Co., $256.25.
16. Sold merchandise to Imperial Hotel, $49.40.
17. Bought merchandise from the Lake View Creamery, $28.20.
19. Sold merchandise to A. C. Williams, $42.25.
22. Cash sales of merchandise, $50.05; sold merchandise, $23.95.
23. Bought merchandise from J. Allen Smith, $196.90.

(*Concluded on page 25.*)

(*Exercise No. 10—Continued from page 24.*)

Jan. 25. Sold Imperial Hotel, $80.15.
26. Sold C. L. Loyd, $78.25.
27. Bought merchandise from Borches & Co., $172.75; sold A. R. Jennings on account, $42.25; cash sales, $42.50.
31. Inventory, value of goods on hand, $992.46.

Exercise No. 11, Purchases and Sales Accounts.

Feb. 1. Salable goods on hand, $316.75 (§ 41a, ¶ 1); bought, $1,186.45.
2. Sold merchandise, $73.50 (§ 41b, ¶ 2); sold merchandise, $327.56.
5. Sold merchandise, $416.25; sold merchandise, $470.25.
8. Bought merchandise, $857.48; charged the proprietor with $65.00 merchandise taken out of stock for private use (§ 41b, ¶ 2).
9. Sold merchandise, $166.50; we returned merchandise, $17.50 (§ 41a, ¶ 4).
10. Sold merchandise, $119.85; merchandise returned to us, $6.50 (§ 41b, ¶ 1).
11. Sold merchandise, $156.75; bought merchandise, $387.65.
12. Paid freight, $62.85 (§ 41a, ¶ 3); sold merchandise, $40.00.
14. Received $360.50 for cash sales.
15. Sold merchandise, on account, $522.36.
17. Sold merchandise, for cash, $572.50.
19. Bought merchandise, $462.92; sold merchandise, $151.00.
21. Sold merchandise, for cash, $594.64.
24. Bought merchandise, $629.40; sold merchandise, $97.00.
25. Sold merchandise, $220.00; bought merchandise, $418.25.
28. Paid freight and drayage bills, $116.80; sold merchandise, $50.00.
28. Salable goods on hand as per inventory, $1,639.47.

Exercise No. 12, Purchases and Sales Accounts.

Mar. 1. Salable goods on hand as per inventory, $2,465.89 (§ 41a, ¶ 1).
2. Sold merchandise, $389.64; bought merchandise, $396.42.
3. Sold merchandise, $275.49; merchandise returned to us, $10.10 (§ 41b, ¶ 1).
5. Sold merchandise, $159.48; purchased merchandise, $132.75.
8. Sold merchandise, $437.69; purchased merchandise, $99.87.
12. Sold merchandise, $375.42; returned merchandise for credit, $25.00.
15. Sold merchandise, $526.49; paid freight and drayage bill, $100.00.
17. Purchased merchandise, $436.82.
20. Charged the proprietor with $86.42 for goods taken out of stock for private use (§ 41b, ¶ 2).
22. Received $349.75 for cash sales.
23. Purchased merchandise, $564.99; sold merchandise, $237.84.
25. Paid for storage in warehouse, $65.40 (§ 41a, ¶ 3).
30. Sold merchandise, $409.12; paid freight and drayage bills to date, $109.62.
31. Sold entire stock of goods, $2,472.48.

EXPENSE ACCOUNT.

§ 42. **The Object of this Account** is to show the cost of conducting the business. As explained in § 33, this may be shown with one account or a number of accounts. The special debits and credits given below, apply when only one account is kept.

Debit Expense:

¶ 1. *For amounts paid for rent, telephone service, license, heat, light, salaries, and other services rendered in conducting the business.

¶ 2. †For the cost of property which will be consumed by its use either, (a) on hand at the beginning of the business, or (b) subsequently purchased.

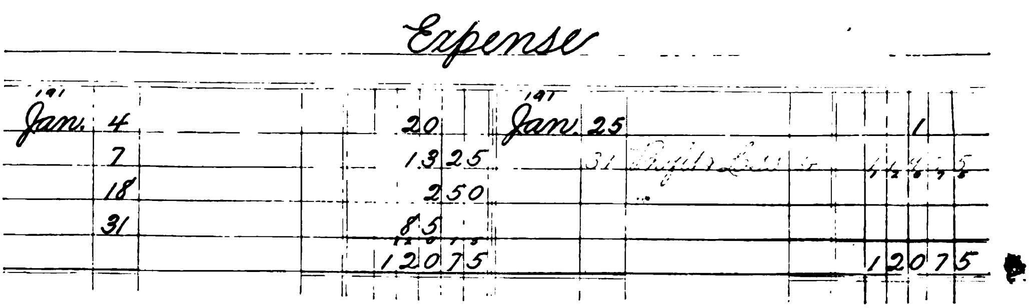
Credit Expense:

¶ 3. For rebates that reduce the cost shown by the debit side.

¶ 4. For amounts received for sale of property, the value of which was charged to this account when purchased.

¶ 5. *The Difference Between the Two Sides of This Account* shows the cost of conducting the business. It is shown as an operating cost on the Profit and Loss statement.

¶ 6. *To Close the Expense Account.* This account is closed into the Profit and Loss account at the time the ledger is closed, as follows: date ~~of closing, "Profit and Loss,"~~ page of the Profit and Loss account and amount. The account is ruled with single and double red lines and footed with black ink. Enter the balance on the debit side of the Profit and Loss account as follows: date of closing, "Expense," page of the Expense account and amount. If closed direct, the balance is entered with red ink as in Illustration No. 5; if closed by a journal entry it is written with black ink. (§ 84, ¶¶ 1 and 2.)



Expense

191						191					
Jan.	4			20		Jan.	25			1	
	7			13	25		31	Profit & Loss		[illegible]	
	18			2	50						
	31			85							
				120	75						
				120	75					120	75

Illustration No. 5, Expense Account for Exercise No. 13.

---

*If at the time of closing, there are obligations for services rendered, the cost of which will be charged to Expense, the amount should be entered on the debit side before closing, because it increases the expenses. (§ 30, ¶ 3.)

†If at the time of closing, part of the property remains on hand, the value is entered on the credit side before closing, because it reduces the expenses. (§ 29, ¶ 3.)

Exercises in the Expense Account. Prepare on ledger paper an account for each of the three exercises. Exercise No. 13 is the same as Illustration No. 5. When the work is presented to the teacher, each account should be closed as in the illustration. References are given to § 42 when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 13, Expense Account.

Jan. 4. Paid city and state license, $20.00 (¶ 1).
7. Paid for stationery, $13.25 (¶ 2).
18. Paid for stamps, $2.50 (¶ 2).
25. Received $1.00 for 2 reams of typewriting paper included in the purchase of stationery on the 7th (¶ 4).
31. Paid rent and salaries for the month, $85.00 (¶ 1).
Close the balance into the Profit and Loss account (¶ 6).

Exercise No. 14, Expense Account.

Feb. 3. Paid for stationery and blank books, $19.65 (¶ 2).
9. Paid employees, $35.00 (¶ 1).
12. Paid for one thousand letterheads and envelopes, $6.50.
19. Paid telephone rent, $12.00.
27. Paid for stamps, $5.00.
28. Paid rent, $40.00, and employees' salaries, $35.00; received $5.00 for desk room rented to W. H. Jones (¶ 3). Close the balance into the Profit and Loss account.

Exercise No. 15, Expense Account.

6 Trans

Mar. 1. Stationery and stamps on hand, $50.00 (¶ 2).
2. Paid livery bill for board of horses, $24.00.
5. Paid for repairs in store, $14.50.
13. Paid employees, $96.50; paid for stamps, $10.00.
25. Paid premium on insurance policy, $22.50.
31. Paid bookkeeper's salary, $40.00, and other employees, $75.00 (¶ 1); received $6.00 as rebate on livery bill, which was for services of our horses and was overlooked when the bill was paid (¶ 3); sold stamps to customer, $2.00 (¶ 4). There are stamps, stationery, etc., on hand valued at $12.50; rent unpaid, $40.00.

Before closing the balance into the Profit and Loss account, enter the value of the "Stamps" on the credit side and the "Unpaid Rent" on the debit side. Write the words in quotations in the explanation columns. See notes in connection with § 42, ¶¶ 1 and 2.

PROFIT AND LOSS ACCOUNT.

§ 43. **The Object of this Account** is to show the net profit or loss for the current fiscal period. It is a summary account opened at the end of the fiscal period. The balance of each profit and loss account is closed into it, and the net profit or loss transferred to the Capital account or accounts. After the ledger is closed, it remains in balance until the end of the next fiscal period.

Sometimes special profits and losses that occur during the period are debited or credited to the Profit and Loss account. This is permissible, but it is the better practice to open an account with each of these special profits or losses.

Debit Profit and Loss:

¶ 1. At the close of each fiscal period with the balance of the expense account or accounts.

¶ 2. At the close of each fiscal period with the balance of profit or loss accounts which show a debit balance.

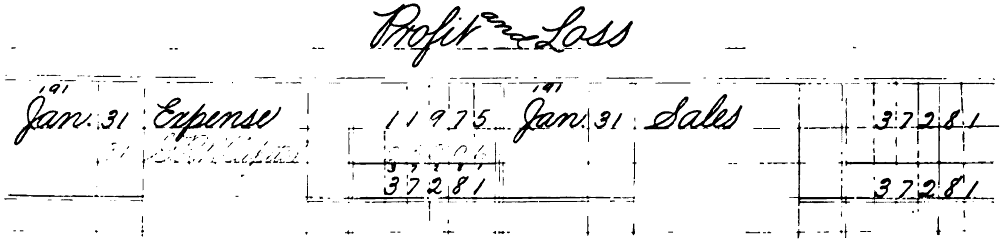
Credit Profit and Loss:

¶ 3. At the close of each fiscal period with the gross profit on sales.

¶ 4. At the close of each fiscal period with the balance of profit or loss accounts which show a credit balance.

¶ 5. *The Balance of this Account* shows the net profit or net loss for the fiscal period; it is the same as the "Net Profit" or "Net Loss" on the Profit and Loss statement.

¶ 6. *To Close the Profit and Loss Account.* Enter the balance on the debit side if a profit or on the credit side if a loss, as follows: date of closing, name of the account into which it is closed, page of this account, and amount. Rule the Profit and Loss account with single and double red lines and enter the totals with black ink. Enter the balance with black ink on the credit or debit side of the account into which it is closed as follows: date, "Profit and Loss," page of the Profit and Loss account, and amount. If closed direct, the balance is written with red ink as in Illustration No. 6; if closed by a journal entry, it is written with black ink.



Profit and Loss

191 Jan.	31	Expense		119 75	191 Jan.	31	Sales		372 81
	31	[illegible]		[illegible]					
				372 81					372 81

Illustration No. 6, Profit and Loss Account for Exercise No. 16.

Exercises in the Profit and Loss Account. Prepare on ledger paper an account for each of the three exercises. Exercise No. 16 is the same as Illustration No. 6. When the work is presented to the teacher, each account should be closed as in the illustration. References are to § 43.

Exercise No. 16, Profit and Loss Account.

Jan. 31. The Profit and Loss statement made by the bookkeeper for Guy R. Newberry shows a loss of $119.75 on Expense (¶ 1), and a profit of $372.81 on Merchandise (¶ 3). The net profit is closed into his Capital account.

Exercise No. 17, Profit and Loss Account.

Feb. 28. The Profit and Loss statement made by the bookkeeper for Robert Clark shows the following profits and losses: Losses: Expense, $80.00 (¶ 1); Interest, $5.00 (¶ 2). Profits: Merchandise, $298.75 (¶ 3); Discount, $5.65 (¶ 4). The net profit is transferred to his Capital account.

Exercise No. 18, Profit and Loss Account.

Mar. 31. At the close of the business, the Profit and Loss statement made by the bookkeeper for D. W. Jones shows the following profits and losses: Losses: General Expense, $501.08 (¶ 1); Selling Expense, $408.95 (¶ 1); Discount, $9.87 (¶ 2). Profits: Merchandise, $1,286.29 (¶ 3); Interest, $4.25 (¶ 4); Profit on Real Estate, $65.00 (¶ 4). The net profit is closed into his Capital account.

CAPITAL ACCOUNT.

§ 44. **The Object of this Account** is to show the net capital of the business, that is, the money invested in the business by the owner at the beginning, subsequent investments, withdrawals from the investment, and the profit made or loss sustained by conducting the business. When the business is owned by a sole proprietor, the investment account is indicated by the word "Capital" after his name. The debits and credits given below refer to the investment by a sole proprietor.

Debit the Capital Account:

¶ 1. For any debts owed at the beginning of the business if they are assumed by the business.

¶ 2. For amounts withdrawn from the capital invested. This does not include amounts withdrawn for services rendered the business.

¶ 3. For the debit excess of the Personal account, if the balance is closed into the Capital account.

¶ 4. For the net loss as shown by the debit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

Credit the Capital Account:

¶ 5. For the value of all property invested at the beginning of the business.

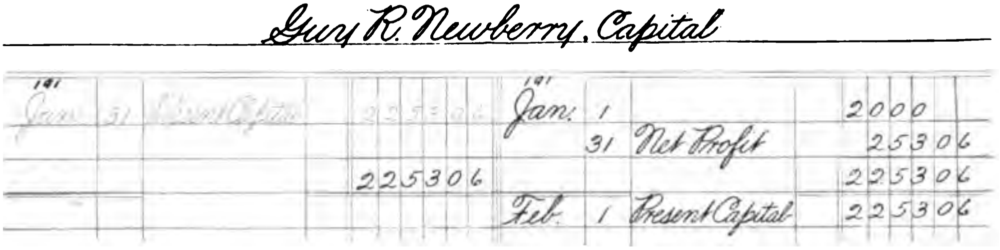
¶ 6. For subsequent investments.

¶ 7. ~~For the credit~~ excess of the Personal account, if the balance is closed into the Capital account.

¶ 8. For the net profit as shown by the credit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

¶ 9. *The Balance of the Capital Account* shows the net amount invested in the business. After the accounts have been closed at the end of the fiscal period, the difference shows the present capital, which is the investment, plus the profit, or minus the loss, for the period.

¶ 10. *To Close the Capital Account.* This account is closed by writing with red ink, on the debit side, the balance of the account, the date of closing, and the words "Present Capital;" it is ruled with single and double red lines, and footed with black ink. The Present Capital is brought down on the credit side, in black ink, under date of the day following the closing, which is the date of the beginning of the new fiscal period. Some authorities designate the present interest in the business "Present Worth" instead of "Present Capital."



Guy R. Newberry, Capital

191				191				
Jan	31	Present Capital	2253 06	Jan.	1			2000
					31	Net Profit		253 06
			2253 06					2253 06
				Feb.	1	Present Capital		2253 06

Illustration No. 7, Capital Account for Exercise No. 19.

Exercises in the Capital Account. Prepare on ledger paper an account for each of the three exercises. Exercise No. 19 is the same as Illustration No. 7. When the work is presented to ~~the teacher, each account should be closed~~, and ~~the~~ Present Capital brought down on the credit side as shown in the Illustration. References are to § 44.

Exercise No. 19, Guy R. Newberry, Capital.

Jan. 1. Guy R. Newberry invested $2,000.00 in the retail grocery business (¶ 5).

31. The Profit and Loss statement was made, and the net profit, $253.06, was credited to his account when the Profit and Loss account was closed (¶ 8). See Illustrations Nos. 6 and 7.

Exercise No. 20, Robert Whittle, Capital.

Feb. 1. Robert Whittle invested $2,000.00 in the retail shoe business.

10. Withdrew $500.00 (¶ 2).

16. Withdrew $1,000.00.

25. Withdrew $100.00.

27. Invested $500.00 (¶ 6).

28. His account was charged with $63.50, the balance of his Personal account (¶ 3); the Profit and Loss statement was made, and his account was credited with the net profit, $416.25, at the time the Profit and Loss account was closed (¶ 8).

Exercise No. 21, W. W. Woodruff, Capital.

Mar. 1. W. W. Woodruff began the retail drug business with the following resources and liabilities: Cash, $4,000.00 (¶ 5); Real Estate valued at $2,500.00 (¶ 5). He owed A. L. Jones $216.50 (¶ 1), and a note of $1,000.00 on the real estate (¶ 1).

10. Invested $1,100.00.

21. Withdrew $400.00.

31. The debit balance of his Personal account, $45.25, was transferred to his Capital account; the Profit and Loss statement was made and the net profit, $622.48, was transferred to the credit of his Capital account, when the Profit and Loss account was closed.

QUESTIONS.

1. What is the object of the Cash account? (§ 37.) Name two debits. (¶¶ 1 and 2.) The credit. (¶ 3.)
2. What ~~does~~ the balance show? (§ 37, ¶ 4.)
3. How is the Cash account closed? (§ 37, ¶ 5.)
4. Define Personal accounts. (§ 38.)
5. What is the object of accounts with customers? (§ 39.) Name three debits. (¶¶ 1–3.) Three credits. (¶¶ 4–10.)
6. What does the balance show? (§ 39, ¶ 11.)
7. When are accounts with customers closed? (§ 39, ¶ 12.)
8. How are special payments designated? (§ 39, Note.)
9. What is the object of accounts with creditors? (§ 40.) Name three of the debits. (¶¶ 1–8.) The three credits. (¶¶ 9–11.)
10. What does the balance show?
11. When are accounts with creditors closed? (§ 40, ¶ 13.)
12. What is merchandise? Purchases? Sales? (§ 41.)
13. What is the object of the Purchases account? (§ 41a.) Sales account? (§41b.)
14. For what is the Purchases account debited? (§ 41a, ¶¶ 1-3.) Credited? (§ 41a, ¶ 4).
15. For what is the Sales account debited? (§ 41b, ¶ 1.) Credited? (§ 41b, ¶ 2.)
16. What is the method of ascertaining the profit resulting from a sale of merchandise?
17. What is the object of the Expense account? (§ 42.) Name two debits. (¶¶ 1 and 2.) Two credits. (¶¶ 3 and 4.)
18. What does this account show on the Profit and Loss statement? (§ 42, ¶ 5.)
19. How is the Expense account closed? (§ 42, ¶ 6.)
20. What effect does property on hand at the close of the fiscal period, the value of which was charged to the Expense account, have on the balance of the Expense account?
21. What is the object of the Profit and Loss account? (§ 43.)
22. What does the balance show? (§ 43, ¶ 5.) How is it closed? (§ 43, ¶ 6.)
23. What is the object of the Capital account? Name two debits. Two credits. What does the balance show? (§ 44, ¶¶ 1–9.)
24. How is the Capital account closed? (§ 44, ¶ 10.)
25. After it is closed, where is the Present Capital written?

RECORDING TRANSACTIONS AND POSTING.

§ 45. **Introduction.** A correct record of the transactions in connection with a business is one of the essential elements of bookkeeping. This record must be permanent and arranged for convenient reference, hence the necessity for blank books usually termed, books of account.

§ 46. **Books of Account** are bound or loose leaf books made of writing paper ruled as desired. There are two classes—books of original entry and books of complete entry. Illustration No. 8 shows one form of ruling for a book of original entry. Illustration No. 9 shows one form of ruling for a book of complete entry.

§ 47. **Books of Original Entry** are those in which the transactions are recorded as they occur. The record shows the *date*, the *name* of the account *debited*, the *name* of the account *credited*, the *amount* debited and credited, and the *explanation* or information for the auditor. In a mercantile or trading business, the books of original entry usually used are, (a) the journal, (b) purchases book, (c) sales book, and (d) cash book.

§ 48. **Books of Complete Entry** are those in which the transactions relative to each account are grouped together. The complete history of each account is shown, the debits appearing on the left side, and the credits on the right side. This information is obtained from the books of original entry, and the amounts are transferred (posted) from time to time, usually once each day. Each entry should show the *date* (year, month and day of month), *amount* and *page* in the book of original entry. The page is important, as it may be necessary to refer to the original transaction. The ledger is the principal book of complete entry. All the accounts may be shown in one ledger or it may be subdivided into (a) the *general ledger*, (b) one or more *sales ledgers*, and (c) one or more *purchases ledgers*, depending entirely upon the number of transactions to be recorded.

§ 49. **The Journal** is a book of original entry in which all the transactions may be recorded. If it is the only book of original entry, all the transactions are recorded in it; if purchases, sales, and cash are recorded in special books, it contains only those transactions not recorded in these books. The record in the journal shows four important facts, as follows: first, the *date*, that is, the day of the month and year on which the transaction occurred; second, the *name* of the account; debited, and the amount; third, the *name* of the account credited and the amount; fourth, the *explanation*, which is the information for the auditor, or anyone who may wish to know why the entry was made. Each of these four facts is of equal importance, and the omission of any one makes the record incomplete. See Illustration No. 8, and the explanation in connection with it.

Illustrations Nos. 10 and 11 show the form of journal used in this set. Other forms will be illustrated in succeeding sets.

Date of the Opening Entry or the First Transaction.

			Debit		Credit	
	Ledger Folio	*Name of account debited.* *Name of account credited.*	Dollars	Cents	Dollars	Cents
(Left Blank)		*Here is written a complete history of the transaction. Do not sacrifice clearness for brevity.*				
		Date.				
	3	*Mdse.*	77	30		
	4	*Borches & Co.*			77	30
		Bought on account, per invoice dated Jan. 1.				

Illustration No. 8. Form of Journal.

Explanation: The entry is arranged in the journal so that errors will be avoided in transferring (posting) to the ledger. The date of the first transaction is written on the blue line at the top of the page. The date of all other transactions entered on that page is written in the center of the page on the first blue line below the explanation, and nothing else is written on this line. The name of the account debited is written at the left, because debits appear on the left; the amount with which the account is debited is written in the first, or debit, money column. The name of the account credited is written about one-half inch to the right of the one debited, and on the next blue line below, the amount is placed in the second or credit money column. The explanation is written between the ledger folio column at the left and the money column at the right. It begins on the next blue line below the credit entry, and may occupy one or more lines, depending upon the number of words necessary to explain the entry. Thus, each transaction will, of necessity, occupy at least four lines, one for the date, one for the name of the account debited, one for the name of the account credited, and one for the explanation. As a rule, the explanation will occupy more than one line.

§ 50. Recording Transactions in the Journal. Transactions are recorded in the journal as they occur. The complete record includes the four important facts mentioned in § 49 and is made in the order mentioned; that is, first, the date; second, the name of the account and amount debited; third, the name of the account and amount credited; and fourth, the explanation, which is the history of the transaction. Recording a transaction in the journal is sometimes referred to as *journalizing*. The accounts to be debited and credited because of the transactions are determined from the nature of the transaction. The general rule outlined in § 51 includes the transactions that usually occur in business.

§ 51. General Rule. The following rule applies to transactions in all lines of business. It is derived from the classification of transactions given in § 16. This rule should be understood and memorized.

Debit:	*Credit:*
(*a*) What is received.	(*d*) What is disposed of.
(*b*) Those who receive value from the business.	(*e*) Those from whom the business receives value.
(*c*) The service that costs value.	(*f*) The service that produces value.

23. pp 34-5

Special Rules. The ~~special rules given~~ in §§ 52–58 are based on the general rule, and the classification of transactions ~~outlined in §§ 17–23~~. These are not to be memorized; reference is given to them when it is necessary in recording transactions of the same nature.

§ 52. **An Exchange of Property for Property.** Debit the account which is to represent the value of the property received, and credit the account representing the value of the property sold or exchanged.

	1		
Purchases		216 87	
Cash			216 87
Bought, for cash, per invoice of this date.			

The property received may or may not be represented by an account, but the property given must be, since it would not be possible to sell or exchange property that did not belong to the business.

§ 53. **An Exchange of Credit for Property.** Debit the account that is to show the value of the property received, and credit (a) the person from whom the property is purchased, or (b) the account that is to represent the liability.

	2		
Purchases		136 75	
Hazen & Lotspeich			136 75
Bought, on account, per invoice Jan. 6.			

The property received may or may not be represented by an account, and the account credited may or may not be represented on the books. In other words, property of a different kind from that owned by the business may be purchased from some firm with whom the business has had no previous dealings.

§ 54. **An Exchange of Property for Credit.** Debit (a) the person who receives the property, or (b) the account that is to represent the debit, and credit the account that shows the value of the property given.

	3		
Central Hotel		52 50	
Sales			52 50
Sold on account 10 *bbls. R. K. Flour at* $5.25			

The account debited may or may not be represented on the books, but the account credited must be, because property could not be sold or given unless it belonged to the business.

§ 55. **Property Given in Payment of an Obligation.** Debit (a) the person who gets the property, or (b) the account that represents the obligation, and credit the account that shows the value of the property given.

	4		
Hazen & Lotspeich		136 75	
Cash			136 75
Paid in full of account			

Both the accounts debited and credited must appear on the books, as the business would not pay obligations it did not owe with property it did not have.

§ 56. **Property Received in Payment of a Debt Due the Business.** Debit the account that is to represent the property received, and credit (a) the person from whom it is received, or (b) the account that represents the debt.

	5				
	Cash	52	25		
	Central Hotel			52	25
	Rec'd in full of account				

The property received may or may not be represented by an account, but the account credited must be, as no customer would pay an obligation he did not owe.

§ 57. **An Exchange of Property for Services.** Debit the account that is to represent the value of the services, and credit the account that represents the value of the property given in payment for the services.

	6				
	Expense	35			
	Cash			35	
	Paid rent for January				

The services purchased may or may not be represented by an account, but the property given in exchange must be.

§ 58. **An Exchange of Services for Property.** Debit the account that is to represent the value of the property received, and credit the account that is to represent the value of the services rendered.

	7				
	Cash	15	67		
	Interest			15	67
	Rec'd of James Warren for interest on his note.				

The accounts debited and credited may or may not appear on the books, as it might be possible for the business to receive property not represented on the books in payment for services not represented.

§ 59. **The Ledger** is a book of complete entry, and is to contain a history of the transactions with each account; it is sometimes called a book of accounts (§ 24). As each account has two sides (§ 25), the ruling in this book provides for these. As a rule, the ruling on both sides is the same, because the transactions are the same, except that they affect the account in a different manner. Illustration No. 9 shows the simplest form of the ledger. All entries in the ledger originate in some book of original entry, except those that are made at the time of closing when the direct transfer method is employed. Entries which originate in books of original entry are transferred (posted) to the ledger.

¶ 1. *Division of Ledgers.* Ledgers may be divided into general and subsidiary. The general ledger is the one in which the general accounts are kept. The general ledger in which only balance sheet accounts are kept is referred to as the private ledger; the general ledger in which operating, and profit and loss accounts are kept is referred to as the operating ledger. Subsidiary ledgers are those which contain the details for general accounts or certain groups of accounts in the general ledger; the customers ledger and creditors ledger are examples of subsidiary ledgers.

NAME OF THE ACCOUNT.

Debits.						*Credits.*					
Year Month	*Day*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of the book of original entry.*	*Dollars*	*Cents*	*Year Month*	*Day*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of the book of original entry.*	*Dollars*	*Cents*

Illustration No. 9. Form of Ledger.

Explanation: The double line in the center divides the account into two distinct sides, the rulings of which are the same. The first space at the left is for the year and month; the second, the day of the month on which the transaction occurred; the third, special information; the fourth, the page of the book of original entry; the fifth, dollars; and the sixth, cents.

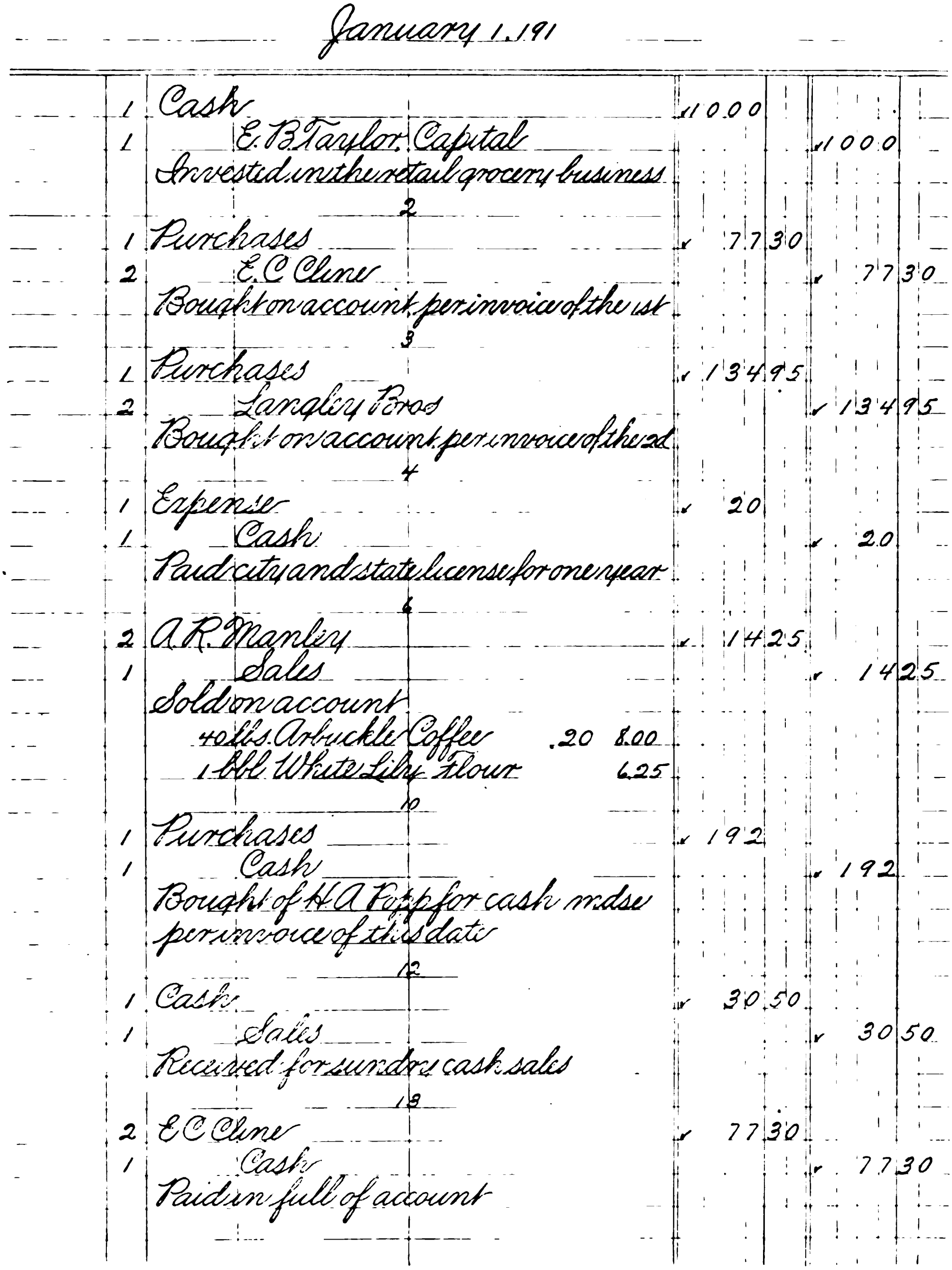
§ **60. Posting** is transferring the amounts from a book of original entry to the ledger, or some other book of complete entry. This is done so that each account in the ledger will show all of the amounts debited or credited to it.

¶ 1. *Posting from the Journal.* Each amount in the debit column is posted to the debit side of the account written on the same line with it. Each amount in the credit column is posted to the credit side of the account written on the same line with it. The entry in the ledger is made in the following order: first, the amount; second, the page in the journal; third, the date; fourth, any special information which is entered in the explanation column. The amounts are posted in the order in which the transactions are recorded.

¶ 2. *Method of Indicating the Posting.* To indicate that each amount has been posted to the account named, the page of the account in the ledger (L. F.) is written in the folio column in the journal, on the same line with the account in the journal. The page on which the transaction is recorded in the journal is written in the folio column of the ledger account, on the same line with the amount posted. If the journal is the only book of original entry in which transactions are recorded, the page is all that is necessary in the folio column of the ledger. If transactions are recorded in other books of original entry, indicate the posting from the journal by writing "J." before the page in the folio column of the ledger.

§ **61. Checking the Posting** is comparing the results in the ledger with the entries in the book or books of original entry, and indicating the correctness by a check mark (✓). Errors may be made in posting either in the amount, the side of the account, or the account to which the amount should be posted, hence the necessity for checking. The check marks should be placed on the double line at the left of the amount in the book or books of original entry, and in the ledger, and made large enough not to be overlooked. Unless all check marks are placed on the same vertical line, amounts not checked might be overlooked.

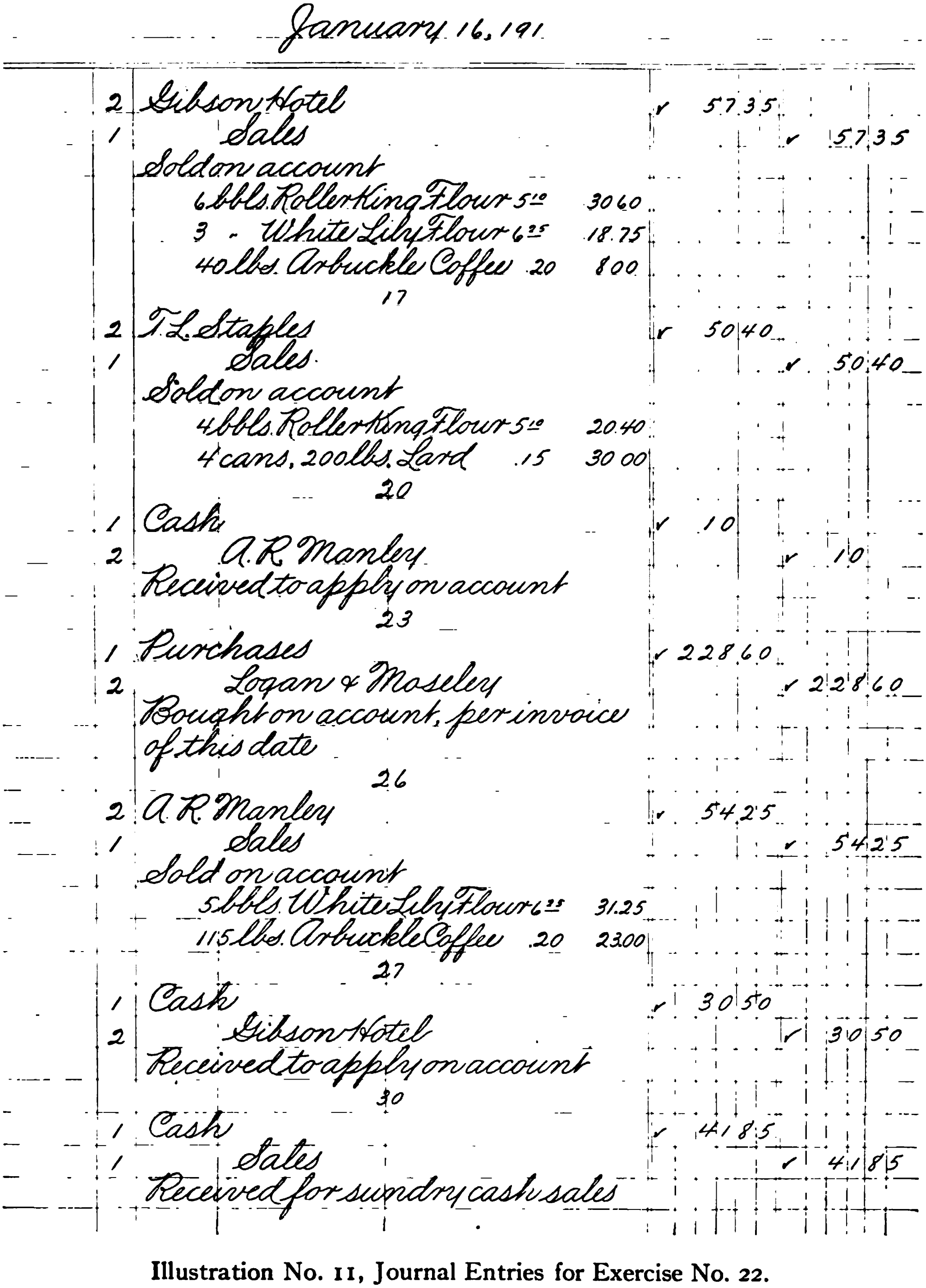
¶ 1. *Method of Checking.* The best results can not be obtained when the checking is done immediately after the posting. Amounts become fixed in the mind, and if the wrong amount is posted the error may not be discovered by checking. At least one day should elapse between the time of posting and the checking. A definite order of checking should be followed if the best results are to be obtained. The better plan is to check the books of original entry in the same order as posted.



January 1, 191

1	Cash	✓1000			
1	E. B. Taylor, Capital			✓1000	
	Invested in the retail grocery business				
	2				
1	Purchases	✓77	30		
2	E. C. Cline			✓77	30
	Bought on account, per invoice of the 1st				
	3				
1	Purchases	✓134	95		
2	Langley Bros			✓134	95
	Bought on account, per invoice of the 2d				
	4				
1	Expense	✓20			
1	Cash			✓20	
	Paid city and state license for one year				
	6				
2	A. R. Manley	✓14	25		
1	Sales			✓14	25
	Sold on account				
	40 lbs. Arbuckle Coffee .20 8.00				
	1 bbl. White Lily Flour 6.25				
	10				
1	Purchases	✓192			
1	Cash			✓192	
	Bought of H. A. Popp for cash mdse per invoice of this date				
	12				
1	Cash	✓30	50		
1	Sales			✓30	50
	Received for sundry cash sales				
	13				
2	E. C. Cline	✓77	30		
1	Cash			✓77	30
	Paid in full of account				

Illustration No. 10, Journal Entries for Exercise No. 22.



January 16, 191

2	Gibson Hotel		✓	57 35		
1	Sales				✓	57 35
	Sold on account					
	6 bbls. Roller King Flour 5.10	30 60				
	3 " White Lily Flour 6.25	18.75				
	40 lbs. Arbuckle Coffee .20	8 00				
	17					
2	T. L. Staples		✓	50 40		
1	Sales				✓	50 40
	Sold on account					
	4 bbls. Roller King Flour 5.10	20.40				
	4 cans, 200 lbs. Lard .15	30 00				
	20					
1	Cash		✓	10		
2	A. R. Manley				✓	10
	Received to apply on account					
	23					
1	Purchases		✓	228 60		
2	Logan & Moseley				✓	228 60
	Bought on account, per invoice of this date					
	26					
2	A. R. Manley		✓	54 25		
1	Sales				✓	54 25
	Sold on account					
	5 bbls. White Lily Flour 6.25	31.25				
	115 lbs. Arbuckle Coffee .20	23.00				
	27					
1	Cash		✓	30 50		
2	Gibson Hotel				✓	30 50
	Received to apply on account					
	30					
1	Cash		✓	41 85		
1	Sales				✓	41 85
	Received for sundry cash sales					

Illustration No. 11, Journal Entries for Exercise No. 22.

E. B. Taylor, Capital

							191						
							Jan.	1		1	✓	1000	

Cash

191							191						
Jan.	1		1	✓	1000		Jan.	4		1	✓	20	
	12		1	✓	30	50		10		1	✓	192	
	20		2	✓	10			13		1	✓	77	30
	27		2	✓	30	50		31	Balance	✓		823	55
	30		2	✓	41	85							
					1112	85						1112	85
Feb.	1	Balance	✓		823	55							

Purchases

191						
Jan.	2		1	✓	77	30
	3		1	✓	134	95
	10		1	✓	192	
	23		2	✓	228	60

Sales

							191						
							Jan.	6		1	✓	14	25
								12		1	✓	30	50
								16		2	✓	57	35
								17		2	✓	50	40
								26		2	✓	54	25
								30		2	✓	41	85

Expense

191						
Jan.	4		1	✓	20	

Illustration No. 12, Ledger Accounts for Exercise No. 22.

E. C. Cline

191 Jan.	13		1	✓	77 30	191 Jan.	2		1	✓	77 30

Langley Bros.

						191 Jan.	3		1	✓	134 95

A. R. Manley

191 Jan.	6		1	✓	14 25	191 Jan.	20		1	✓	10
	26	58 50	2	✓	54 25 68 50						

Gibson Hotel

191 Jan.	16	26 85	2	✓	57 35	191 Jan.	28		2	✓	30 50

T. L. Staples

191 Jan.	17		2	✓	50 40						

Logan & Moseley

						191 Jan.	23		1	✓	228 60

Illustration No. 13, Ledger Accounts for Exercise No. 22.

§ 62. A **Trial Balance** is a list of the open accounts in the ledger with the balance or the total debits and credits set opposite the name of each account. In practice it is customary to use the balance of the real accounts (§ 28) and the total debits and credits of the nominal accounts (§ 28).

¶ 1. *Reason for Taking a Trial Balance.* In double entry bookkeeping each transaction involves a debit and a credit entry of the same amount. If all the debits in the books of original entry are posted to the debit side of the accounts involved in the ledger, and all the credits in the books of original entry to the credit side of the accounts involved in the ledger, the total debits and the total credits of all the ledger accounts must be equal. When this is the condition, the ledger is said to be in balance. Careful posting and checking are indications to the bookkeeper that his ledger is in balance, but as the experienced bookkeeper knows, and as the student will learn, these are not absolute evidence. There is a possibility of making an error in posting and not detecting it by checking, or of making a mistake in the addition of those accounts that have more than one amount on the debit or credit side. For these and other reasons which are explained later, there must be some additional proof that the ledger is in balance. To obtain this proof a Trial Balance is taken, usually at the end of each month.

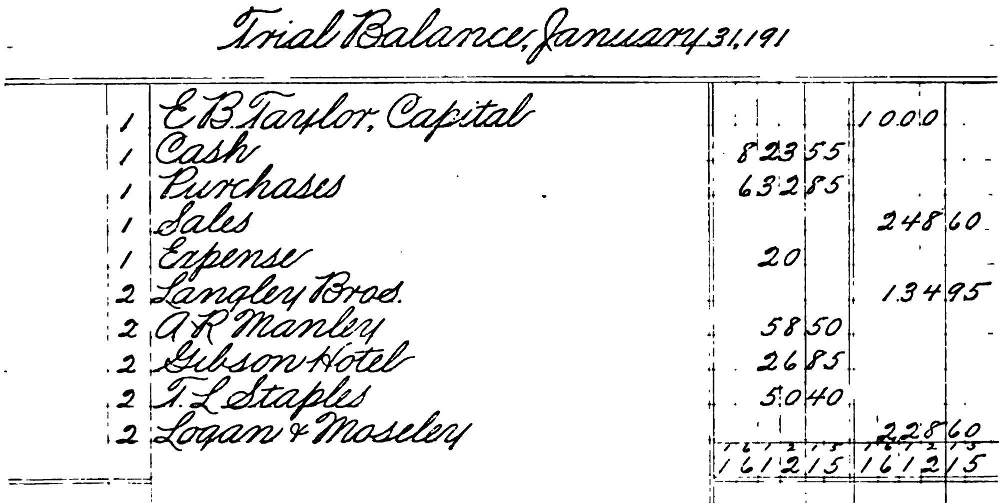
¶ 2. *Method of Taking a Trial Balance.* The efficient bookkeeper will follow a definite outline in taking his Trial Balance. The following has been worked out from consultations with practical bookkeepers:

(a) *See that each Amount* in the journal or other books of original entry, and in the ledger, is checked with a check mark.

(b) *Foot each Account in the Ledger* that has more than one amount on the debit or credit side, and write the total in small pencil figures just beneath the blue line on which the last entry is made.

(c) *Take the Difference of the Real Accounts* (Accounts with Persons, Cash, etc., § 28), and write it with small pencil figures in the explanation column on the larger side and just to the left of the last entry. The calculations for ascertaining this should be made on scratch paper. Some bookkeepers make these in the explanation column, but this is not the better practice.

(d) *Check the Additions and Subtractions* just completed. Do not accept the work as correct until it has been checked.



Trial Balance, January 31, 191

1	E.B. Taylor, Capital			1000	
1	Cash	823	55		
1	Purchases	632	85		
1	Sales			248	60
1	Expense	20			
2	Langley Bros.			134	95
2	A.R. Manley	58	50		
2	Gibson Hotel	26	85		
2	T.L. Staples	50	40		
2	Logan & Moseley			228	60
		1612	15	1612	15

Illustration No. 14. Trial Balance for Exercise No. 22.

¶ 3. *On a Sheet of Journal Paper* write the names of the accounts in the same order in which they appear in the ledger, omitting those that balance. Opposite the name of each real account place the balance as shown in the ledger. Opposite each nominal account place the totals of the debits and credits as shown in the ledger.

¶ 4. *Add the Debit Column*, and place the total in small pencil figures beneath the last amount; add the credit column and place the total beneath the last amount. The two amounts should be equal. Rule as shown in Illustration No. 14.

¶ 5. *If the Totals are not Equal*, check the work in the order outlined in ¶¶ 2–4.

EXERCISES IN JOURNALIZING, POSTING AND TAKING A TRIAL BALANCE.

The following exercises illustrate the principles discussed in the preceding pages. Only two books, the journal and ledger, are used. The entries are to be made in the journal and posted to the ledger, and a Trial Balance taken. The entries are not made in the books of account that accompany the practice set, but on journal and ledger paper. The references are to the general rule (§51), and the special rules deduced from this. Illustrations Nos. 10 and 11 show the journal entries required in Exercise No. 22.

Exercise No. 22. E. B. Taylor, Proprietor.

Jan. 1. E. B. Taylor invests $1,000.00 in the grocery business (§ 51, a and e).
See first entry in Illustration No. 10.
2. Bought of E. C. Cline, on account, merchandise per invoice of the 1st, $77.30 (§ 51, a and e).
See second entry in Illustration No. 10.
3. Bought of Langley Bros., on account, merchandise per invoice of the 2d, $134.95.
See third entry in Illustration No. 10.
4. Paid $20.00, city and state license for one year (§ 51, c and d).
6. Sold A. R. Manley, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, $6.25 (§ 51, b and d).
10. Bought of H. A. Popp, for cash, merchandise per invoice of this date, $192.00 (§ 51, a and d).
12. Received $30.50 for sundry cash sales (§ 51, a and d).
13. Paid E. C. Cline $77.30, in full of account (§ 51, b and d).
16. Sold Gibson Hotel, on account, 6 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 40 lbs. Arbuckle coffee at 20c.
17. Sold T. L. Staples, on account, 4 bbls. Roller King flour at $5.10; 4 cans, 200 lbs. lard at 15c.
20. Received of A. R. Manley $10.00, to apply on account (§ 51, a and e).
23. Bought of Logan & Moseley, on account, merchandise per invoice of this date, $228.60.
26. Sold A. R. Manley, on account, 5 bbls. White Lily flour at $6.25; 115 lbs. Arbuckle coffee at 20c.
27. Received $30.50 of the Gibson Hotel to apply on account.
30. Received for sundry cash sales $41.85.

After the transactions have been recorded on a sheet of journal paper, proceed as follows:
1st. Compare your results with those shown in illustrations Nos. 10 and 11.
2d. Post to a sheet of ledger paper as instructed in § 60. Divide the first page into five parts by ruling double red lines similar to those in Illustration No. 12. Write "E. B. Taylor Capital" on the blue line at the top of the page, "Cash" on the blue line above the first double lines ruled, "Pur-

chases" on the blue line above the second double lines ruled, "Sales" on the blue line above the third double lines ruled, and "Expense" on the blue line above the fourth double lines ruled. Divide the second page into six equal parts with double red lines similar to those in Illustration No. 12. Write "E. C. Cline" on the blue line at the top of the page, "Langley Bros." on the blue line above the first double lines rules, "A. R. Manley" on the blue line above the second double lines ruled, "Gibson Hotel" on the blue line above the third double lines ruled, "T. L. Staples" on the blue line above the fourth double lines ruled, and "Logan & Moseley" on the blue line above the fifth double lines ruled. Write the name of the accounts so that there will be the same space at the left and right sides of the paper as shown in the illustration. When the entry for the amount paid E. C. Cline January 13 is posted, his account is ruled with single red lines under the dollars and cents columns only, as shown in Illustration No. 13 and explained in § 40, ¶ 12.

3d. Check the posting (§ 61), and compare your results with Illustrations Nos. 12 and 13.

4th. Prove cash. To do this, foot the two sides of the Cash account in the ledger and subtract the amount paid (credit side) from the amount received (debit side). The balance, $823.55 is the amount on hand. If currency had been received for each entry on the debit side and paid for each entry on the credit side the amount would be the same as this. Rule the Cash account as shown in Illustration No. 12.

5th. Take a Trial Balance as instructed in § 62, ¶¶ 2–5, and Illustration No. 14.

6th. Present the journal, ledger and Trial Balance to the teacher for approval.

Exercise No. 23. Donald D. Sells, Proprietor.

Feb. 1. Donald D. Sells invests $3,000.00 cash in the hardware business (§ 51, a and e).
2. Bought from Moore & Moore, on account, merchandise per invoice of this date, $187.65 (§ 51, a and e).
3. Sold J. C. Mason, on account, 4 kegs nails at $4.50 (§ 51, b and d).
4. Paid Davis Bros. $281.36 for cash purchase of merchandise (§ 51, a and d).
5. Paid $25.00, telephone rent (§ 51, c and d).
6. Bought from Pickering Hardware Co., on account, merchandise per invoice of this date, $321.97.
Paid Moore & Moore $100.00, on account (§ 51, b and d).
8. Received $116.50 for a cash sale (§ 51, a and d).
9. Sold Walter Love, on account, 1 saw, $5.00; 1 ax, $1.50; 1 hammer, 75c; 1 corn sheller, $35.00.
10. Bought from Johnson Bros., on account, merchandise per invoice of this date, $261.85.
Received $18.00 from J. C. Mason, in full of account (§ 51, a and e).
11. Paid Moore & Moore $87.65, in full of account.
12. Sold J. C. Miller, on account, 100 lbs. lead at 5c; 1 doz. picks, $9.00; 6 kegs nails at $4.50.
13. Received $106.95 for cash sales.
15. Received $20.00 from Walter Love to apply on account (§ 51, a and e).
16. Paid clerk, on account, $10.00 (§ 51, c and d).
17. Bought from Donelson Bros., on account, merchandise per invoice of this date, $321.85.
18. Sold Central Construction Co., on account, 3 doz. shovels at $7.00; 5 doz. picks at $9.00; 6 scrapers at $32.50.
19. Paid Pickering Hardware Co. $321.97, in full of account.
20. Paid Johnson Bros. $150.00, on account.
22. Received $125.25 for cash sales (§ 51, a and d).
23. Sold Walter Love, on account, one Studebaker wagon, $85.00.
24. Paid Johnson Bros. $100.00, to apply on account.
25. Paid $30.00 for advertising (§ 51, c and d).
26. Received $22.25 from Walter Love in full of bill sold on the 9th.
27. Received for cash sales to date $121.85.

After the transactions have been recorded on a sheet of journal paper, present the work to the teacher for approval, and proceed as follows:

1st. Post to a sheet of ledger paper as instructed in § 60. Allow two lines for Donald D.

Sells, Capital, thirteen for Cash, six for Purchases, ten for Sales, four for Expense on the first page. Allow five lines for each personal account on the second page. Divide the pages with double red lines as shown in Illustrations Nos. 12 and 13. When a personal account balances, rule with single lines as explained in § 40, ¶ 12 and Illustration No. 13.

2d. Check the posting (§ 61).

3d. Prove cash. The balance of cash on hand is $2,424.82. The difference between the total receipts as shown by the debit side and the total payments as shown by the credit side should equal this. Rule the Cash account as shown in Illustration No. 12.

4th. Take a Trial Balance as instructed in § 62, ¶¶ 2–5, and Illustration No. 14.

5th. Present the journal, ledger and Trial Balance to the teacher for approval.

Exercise No. 24. H. A. Popp, Proprietor.

Mar. 1. H. A. Popp invests $1,000.00 cash in the retail coal business.
2. Bought from Central Coal Co., on account, merchandise per invoice of this date, $250.00 (§ 51, a and e).
3. Sold J. C. Miller, on account, 5 tons lump coal at $5.50, 5 tons nut coal at $5.00 (§ 51, b and d).
4. Bought from Davis Coal Co., on account, merchandise per invoice of the 1st, $175.50.
5. Paid $10.00 for telephone service (§ 51, c and d).
6. Bought from Jellico Coal Co., on account, merchandise per invoice of this date, $362.75.
8. Paid Central Coal Co. $100.00, on account (§ 51, b and d).
9. Sold Walter Love, on account, 5 tons nut coal at $5.00; 1 ton lump coal, $5.50.
10. Received for sundry cash sales, $151.05 (§ 51, a and d).
11. Sold Central Hotel, on account, 50 tons nut coal at $4.85.
12. Paid Central Coal Co. $150.00, in full of account.
13. Sold J. C. Miller, on account, 3 tons lump coal at $5.50.
15. Cash sales to date, $122.00.
16. Received $20.00 from Walter Love, on account.
17. Paid clerk's salary for first half of month, $25.00 (§ 51, c and d).
18. Bought from Donaldson Coal Co., for cash, 100 tons lump coal at $4.00.
20. Paid Jellico Coal Co. $150.00, on account.
22. Received $10.50 from Walter Love in full of bill sold on the 9th.
23. Sold Central Hotel, on account, 5 tons lump coal at $5.50.
24. Bought from Davis Coal Co., on account, merchandise per invoice of the 22d, $209.38.
25. Received for sundry cash sales, $135.65.
26. Sold Walter Love, on account, 2 tons nut coal at $5.00.
27. Received $200.00 from Central Hotel to apply on account.
29. Sold J. C. Miller, on account, 8 tons nut coal at $5.00.
30. Received for sundry cash sales, $192.80.
31. Paid rent, $40.00, and clerk hire, $25.00.

After the transactions have been recorded on a sheet of journal paper proceed as follows:

1st. Post to a sheet of ledger paper as instructed in § 60. Allow two lines for H. A. Popp, Capital, eleven for Cash, six for Purchases, twelve for Sales, four for Expense, and five for each personal account. Divide the pages with double red lines as shown in Illustrations Nos. 12 and 13.

2d. Check the posting.

3d. Prove cash. The balance on hand is $932.00. The difference between the two sides of the Cash account should equal this. Rule the Cash account as in Illustration No. 12.

4th. Take a Trial Balance as instructed in § 62, ¶¶ 2–5, and Illustration No. 14.

5th. Present the journal, ledger and Trial Balance to the teacher for approval.

Exercise No. 25. J. N. Fulton, Proprietor.

Apr. 1. J. N. Fulton invests $1,500.00 in the retail shoe business.

(*Concluded on page 45.*)

(*Exercise No. 25—Continued from page 44.*)

Apr. 2. Bought from Union Shoe Co., on account, invoice of shoes, $681.70.
3. Paid $25.00 cash for telephone service.
4. Sold Davis Bros., on account, 10 pairs men's brogans at $1.25.
5. Bought from Arnold, Henegar & Doyle, for cash, invoice of shoes, $365.87.
8. Received for cash sales to date, $158.70.
9. Bought from the Hamilton Brown Shoe Co., on account, invoice of shoes, $962.48.
11. Sold Arthur Ogden, on account, 3 pairs children's shoes at $1.25, 1 pair men's satin calf, $5.00.
12. Paid $37.50 insurance on stock and fixtures.
15. Paid Union Shoe Co. $381.70, on account.
16. Bought from Overton Shoe Co., on account, invoice of shoes, $468.42.
17. Paid $25.00 for stamps and stationery.
18. Received for cash sales to date, $181.90.
19. Sold Caleb Fall, on account, 4 pairs ladies' kids at $1.75; 4 pairs boy's shoes at $1.65.
20. Sold Jacob Dolittle, on account, 5 pairs men's shoes at $3.00; 4 pairs women's shoes at $2.50; 6 pairs children's shoes at 90c.
22. Paid $400.00 to Hamilton Brown Shoe Co., on account.
23. Sold Joe Smith, for cash, 6 pairs children's shoes at 95c; 1 pair men's shoes, $4.00; 6 pairs ladies' bals. at $2.25.
24. Paid $35.00 rent for the month.
25. Received for cash sales to date, $206.10.
26. Bought for cash, invoice of shoes, $269.87.
27. Received $15.00 from Jacob Dolittle on account.
29. Sold A. J. Bowen, on account, 5 pairs men's shoes at $3.50; 2 pairs ladies' shoes at $2.00.
30. Received $10.00 from Caleb Fall on account.
Paid bookkeeper's and clerk's salaries, $55.00.

Have the journal approved by the teacher; post to a sheet of ledger paper. Allow two lines for J. N. Fulton, Capital, thirteen for Cash, six for Purchases, ten for Sales, six for Expense, and four for each personal account. Prove cash, balance $499.96; take a Trial Balance and present all work to the teacher for approval.

Exercise No. 26. J. O. Murdock, Proprietor.

May 1. J. O. Murdock invests $2,000.00 in the retail clothing business.
Bought of Jones Bros., on account, merchandise per invoice of this date, $216.87 (§ 53).
2. Bought of Cohen & Eisenberg on account, merchandise per invoice of the 1st, $75.42.
3. Sold A. C. Brown, on account, 1 suit of clothes, $44.00 (§ 54).
4. Bought of Hart, Schaffner & Marx, for cash, merchandise per invoice of this date, $218.72.
5. Sold A. C. Woods, for cash, 1 suit of clothes, $60.00; 1 overcoat, $50.00.
6. Sold J. C. Wilson, on account, 1 suit of clothes, $50.00; 5 shirts at $2.50.
8. Paid Cohen and Eisenberg, $75.42, in full for bill purchased on the 2d (§ 55).
Sold Charles Horne, on account, 2 suits of clothes, $50.00; 1 vest, $~~10.00~~.
9. Bought of Hart, Schaffner & Marx, on account, merchandise per invoice of the 8th, $167.92.
10. Sold A. C. Brown, on account, 1 suit of clothes, $50.00; 1 pr. pants, $15.00; 4 shirts at $2.50; 6 shirts at $2.00; 3 pr. socks at 50c.
11. Received $50.00 from Charles Horne, on account (§ 56).

(*Concluded on page 46.*)

(Exercise No. 26—Continued from page 45.)

May 12. Bought of Cohen & Eisenberg, on account, merchandise per invoice of the 10th, $84.75 (§ 53).

13. Paid $10.00, telephone rent for the month (§ 57).
Received $62.50 from J. C. Wilson in payment for bill sold him on the 6th (§ 56).

15. Bought of David Bros., on account, merchandise per invoice of the 7th, $203.18 (§ 53).

17. Bought of Jones Bros., on account, merchandise per invoice of the 12th, $162.50.

18. Paid David Bros. $203.18, in full for bill purchased on the 15th (§ 55).
Received $87.55 from J. C. Wilson for a cash sale (§ 52).

19. Sold Charles Horne, on account, 6 shirts at $2.50; 1 hat, $5.00; 1 tie, $1.25.
Paid the Central Coal Co. $12.00 for coal delivered today to be used for heating the building (§ 57).

20. Received $25.00 from A. C. Brown, on account.
Received cash from O. M. Bailey for 2 suits of clothes, $90.00.

22. Paid M. M. Condon cash for freight and drayage, $62.25.

23. Gave Cohen & Eisenberg $84.75 cash in payment of invoice purchased the 12th.

24. Paid Jones Bros. $140.00, on account.

26. Received cash from Charles Horne in full for bill sold on the 19th.

30. Paid Hart, Schaffner & Marx $167.92, in full for bill bought on the 9th.

31. Paid rent, $25.00; bookkeeper's salary, $35.00; clerk's salary, $30.00.

Complete the work as instructed in the preceding exercises. Allow two lines for J. O. Murdock, Capital, fourteen for Cash, eight for Purchases, nine for Sales, four for Expense, and five for each personal account. Cash balance, $1,382.06.

QUESTIONS.

1. What are blank books? (§ 46.)
2. Distinguish between books of original entry and books of complete entry. (§§ 47, 48.)
3. Define the journal. (§ 49.)
4. Name the four steps necessary to record a transaction in the journal. (§ 49).
5. Give the general rule for debit and credit. (§ 51.)
6. Define the ledger. (§ 59.)
7. Why is it divided into two sides?
8. Why is the form of both sides the same?
9. Describe posting from the journal. (§ 60.)
10. How do you indicate in the journal that the transaction has been posted?
11. Why is the journal page written in the folio column in the ledger?
12. When posting what is entered in the ledger first? Second? Third? Fourth?
13. Can more than one account be entered on a page in the ledger?
14. Why does the bookkeeper check his postings? (§ 61.)
15. Why are the check marks entered on the same vertical line in the journal?
16. Why are they entered on the same line in the ledger?
17. Why is it necessary to use check marks?
18. Define Trial Balance. Why is a Trial Balance taken? (§ 62.)
19. How often is a Trial Balance taken in business?
20. How are the real and nominal accounts entered on the Trial Balance?

INTRODUCTORY SET.

RETAIL GROCERY BUSINESS, W. H. GOODWIN, PROPRIETOR.

JANUARY.

§ 63. **Introduction.** In the preceding pages some of the most important fundamental principles are explained and their application illustrated in the construction of accounts, the use of the journal and ledger and the making of the Trial Balance. The student is now prepared to apply these principles by "keeping a set of books." The transactions are recorded in the regular books of account which consist of a cash book, purchases book, sales book and journal. In addition to the use of these books, he is taught to make bills, write receipts, make a Statement of the Business, and close the ledger.

The Transactions to be Recorded are separate from the discussion of the principles (§ 1–120) and may be represented by incoming vouchers (reproduced business papers), or a printed record similar in form to Exercises Nos. 22–26. The final results are the same with either method.

PURCHASES BOOK.

§ 64. **The Purchases Book** is a book of original entry in which all credit purchases of merchandise are recorded. In a mercantile or trading business there are usually a number of credit purchases. To record each of these in the journal means to write the name of the person or firm from whom the merchandise is purchased, the word "Purchases," together with the debit and credit amount and the necessary explanation. If all the credit purchases are entered in one book and no other transactions are entered in this book, the total is the credit purchases, hence the use of the purchases book saves the time required to write the word "Purchases" and the amount for each credit purchase.

There are *three* important steps necessary to make an entry in the purchases book: the date; the name of the person or firm from whom the merchandise is purchased; the amount, and the explanation, which must contain the date of the invoice, number of the invoice and the terms. It is not necessary to copy the items in the purchases book because the invoice which is filed contains this information.

¶ 1. *To enter a Credit Purchase.* A credit purchase is entered in the purchases book on one line as follows: the date; the name of the person or firm from whom the merchandise is purchased; the address, if desired; the date of the invoice; the terms and the amount. Where only two columns are ruled in the purchases book, the amount is entered in the first column. The entry is made in the order given. After the entry is completed the date of the entry is written on the invoice, which is then filed.

Where the address is required in the ledger, an extra column is provided for this in the purchases book, or the address is written on the line below the name of the firm.

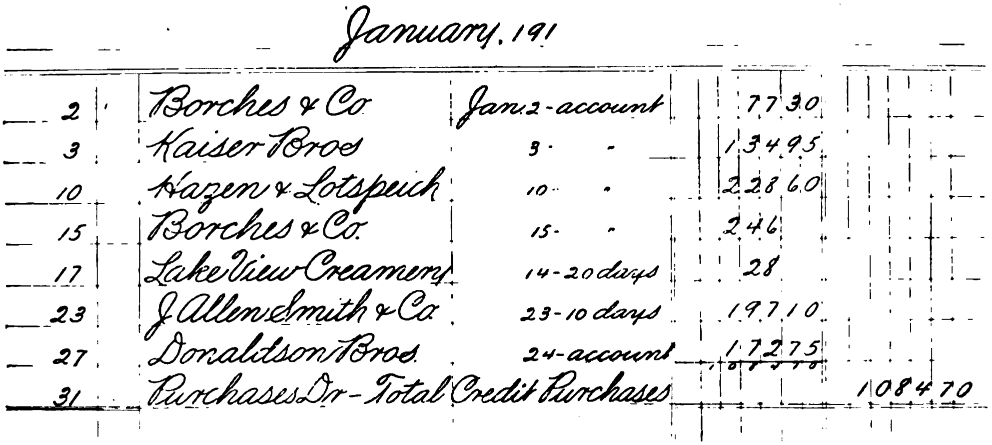
¶ 2. *Posting from the Purchases Book.* Each amount written in the first column is posted to the credit side of the account written on the same line with it;

this account bears the name of the person or firm from whom the merchandise was purchased. The date, the letter "P" to indicate the name of the book, and the page of the purchases book (or invoice number) are entered in the ledger. If special terms are given, that is, a definite time stated for payment, this is written in the explanation column of the ledger account. To indicate the posting in the purchases book, the page of the ledger is written in the folio column, which is the space between the date of the month and the name of the account.

¶ 3. *Forwarding and Posting the Total.* The Purchases account is not debited with the amount of each purchase, but with the total purchases at the end of the month, or when the Trial Balance is to be made. If the entries for the period require more than one page, the total of the first page is forwarded to the top of the second and the same plan is continued until the total is to be posted. "Carried Forward" and the amount are entered at the bottom of the first page, and "Brought Forward" and the amount at the top of the second page and succeeding pages. The total at the bottom of each page is entered between single and double red lines, on the first blank line below the last entry on the page.

¶ 4. *Cash Purchases* may be entered in the cash book, or in the purchases book and cash book. If entered in the cash book only, Purchases is charged with the amount of the purchase. If entered in both the purchases book and cash book, the entries are the same as a credit purchase and a cash payment to a creditor; if an account is not to be opened with the person or firm from whom the cash purchase is made, the entry is checked in both the purchases book and cash book. The nature of the business and the wishes of the management will determine which method is the better practice.

Illustration No. 15 shows the form of purchases book used in this set. Other forms will be illustrated in succeeding sets.



January, 191

2	Borches & Co	Jan. 2 - account	77 30	
3	Kaiser Bros	3 - "	134 95	
10	Hazen & Lotspeich	10 - "	228 60	
15	Borches & Co.	15 - "	246	
17	Lake View Creamery	14 - 20 days	28	
23	J Allen Smith & Co	23 - 10 days	197 10	
27	Donaldson Bros	24 - account	172 75	
31	Purchases Dr - Total Credit Purchases			1084 70

Illustration No. 15, Purchases Book for January, Introductory Set.

Exercises in the Purchases Book. Prepare on journal paper a purchases book for each of the three exercises. Since Nos. 27 and 28 are not to be posted, the folio column is not needed in these exercises. Each exercise is to be ruled as shown in Illustration No. 15. Exercise No. 27 is the same as Illustration No. 15 except for the folio column.

Exercise No. 27, Purchases Book.

Jan. 2. Bought of Borches & Co., on account, merchandise per invoice of this date, $77.30 (§ 64, ¶ 1).
3. Bought of Kaiser Bros., on account, merchandise per invoice of this date, $134.95.
10. Bought of Hazen & Lotspeich, on account, merchandise per invoice of this date, $228.60.
15. Bought of Borches & Co., on account, merchandise per invoice of this date, $246.00.
17. Bought of Lake View Creamery, on twenty days time, merchandise per invoice of Jan. 14, $28.00.
23. Bought of J. Allen Smith & Co., on ten days time, merchandise per invoice of this date, $197.10.
27. Bought of Donaldson Bros., on account, merchandise per invoice of Jan. 24, $172.75.

Exercise No. 28, Purchases Book.

Feb. 1. Bought of B. A. Ames, terms 30 days, merchandise per invoice of this date, $350.00.
2. Bought of J. H. King, terms 60 days, merchandise per invoice of the 1st, $286.00.
3. Bought of H. M. Lowe, terms 30 days, merchandise per invoice of the 1st, $325.00.
5. Bought of H. T. Harris, on account, merchandise per invoice of this date, $486.00.
7. Bought of P. T. Pilser, terms 30 days, merchandise per invoice of the 3d, $210.00.
9. Bought of J. T. Goodrich, terms 90 days, merchandise per invoice of the 7th, $825.00.
11. Bought of J. P. Benson, terms 60 days, merchandise per invoice of the 10th, $64.00.
12. Bought of C. O. Parsons, terms 30 days, merchandise per invoice of this date, $128.00.
15. Bought of H. L. Simpson, terms 30 days, merchandise per invoice of the 13th, $242.00.

Exercise No. 29, Purchases Book.

This exercise is to be posted in connection with Exercises Nos. 32 and 35, hence a folio column should be ruled at the left before the transactions are recorded. When approved, retain until the other exercises have been completed.

Mar. 2. Bought of Bay State Shoe Co., terms 10 days, invoice of shoes dated Feb. 28, $496.81.
3. Bought of Haynes, Henson & Co., terms 10 days, invoice of shoes, dated Mar. 2, $387.65.

(*Concluded on page 50.*)

(*Exercise No. 29—Continued from page 49.*)

Mar. 4. Bought from M. B. Lang, terms 30 days, invoice of shoes, dated Mar. 3, $1,691.42.

6. Bought of Cline Shoe Co., terms 30 days, invoice of shoes, dated Mar. 4, $168.42.

18. Bought of Bay State Shoe Co., terms 30 days, invoice of shoes, dated Mar. 15, $987.35.

25. Bought of Haynes, Henson & Co., terms 30 days, invoice of shoes, dated Mar. 20, $462.85.

26. Bought of Cline Shoe Co. terms 30 days, invoice of shoes, dated Mar. 20, $785.00.

31. Bought of A. O. Haines, terms 60 days, invoice of shoes, dated Mar. 21, $432.50.

Bought of M. B. Lang, terms 30 days, invoice of shoes, dated Mar. 22, $356.00.

SALES BOOK.

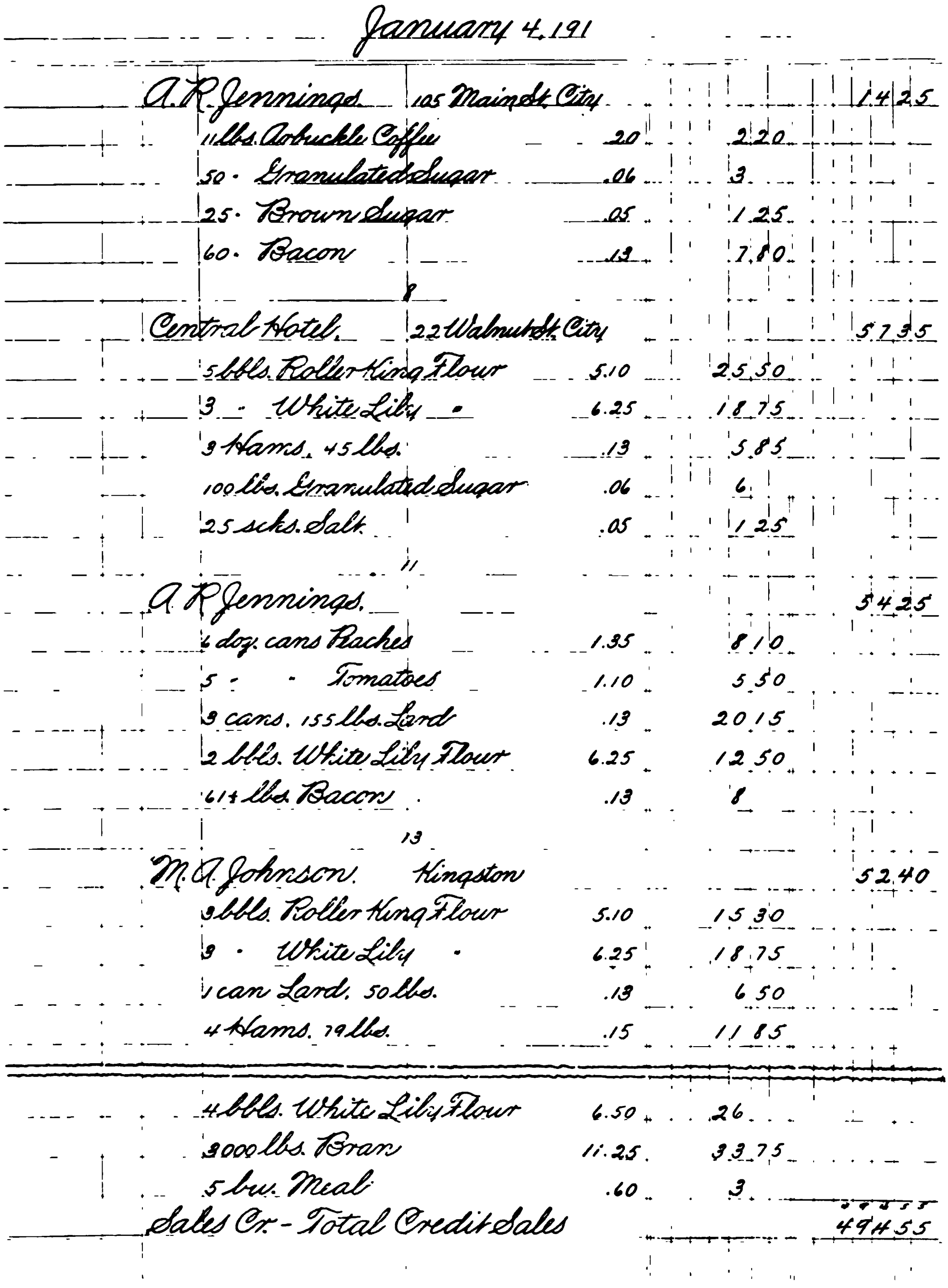
§ 65. **The Sales Book** is a book of original entry in which all credit sales of merchandise are recorded. In a mercantile or trading business there are usually a number of credit sales. To record each of these in the journal means to write the name of the person or firm to whom the merchandise is sold, the word "Sales," together with the debit and credit amount and the necessary explanation. If all the credit sales are entered in one book and no other transactions are entered in this book, the total is the credit sales; hence the use of the sales book saves the time required to write the word "Sales" and the amount for each credit sale.

There are *three* important steps necessary to make an entry in the sales book: the date; the name of the person or firm to whom the sale is made and the amount; and the explanation, which must contain a list of the goods sold, arranged in the same order as on the bill.

¶ 1. *To enter a Credit Sale.* A credit sale is entered in the sales book as follows: the date, which is written at the top of the page for the first sale entered, and in the center of the page for the succeeding sales; the name of the person or firm to whom the merchandise is sold; the address, if desired; the items sold, this description being the same as the items on the bill; and the amount. Illustration No. 16 shows the position of the entries. The amount is entered on the same line with the name of the person or firm, and the description of the items sold indented, to facilitate posting.

¶ 2. *Posting from the Sales Book.* Each amount written in the second money column is posted to the debit side of the account written on the same line with it; this account bears the name of the person or firm to whom the merchandise was sold. The date, the letter "S" to indicate the name of the book, and the page of the sales book are entered in the ledger. If special terms are given, that is, a definite time in which payment is to be made, this is written in the explanation column of the ledger account. To indicate the posting in the sales book, the page of the ledger is written in the folio column at the left.

¶ 3. *Forwarding and Posting the Total.* The Sales account is not credited with the amount of each sale, but with the total sales at the end of the month, or when the Trial Balance is to be made. If the entries for the period require more than one page, the total of the first page is forwarded to the top of the second and the same plan is continued until the total is to be posted. "Carried Forward" and the amount are entered at the bottom of the first page, and "Brought Forward" and the amount, at the top of the second and succeeding pages. The



January 4. 191

A. R. Jennings	105 Main St. City			14 25
11 lbs. Arbuckle Coffee		.20	2 20	
50 " Granulated Sugar		.06	3	
25 " Brown Sugar		.05	1 25	
60 " Bacon		.13	7 80	
	8			
Central Hotel.	22 Walnut St. City			57 35
5 bbls. Roller King Flour		5.10	25 50	
3 " White Lily "		6.25	18 75	
3 Hams. 45 lbs.		.13	5 85	
100 lbs. Granulated Sugar		.06	6	
25 scks. Salt		.05	1 25	
	11			
A. R. Jennings.				54 25
6 doz. cans Peaches		1.35	8 10	
5 " " Tomatoes		1.10	5 50	
3 cans. 155 lbs. Lard		.13	20 15	
2 bbls. White Lily Flour		6.25	12 50	
61½ lbs. Bacon		.13	8	
	13			
M. A. Johnson.	Kingston			52 40
3 bbls. Roller King Flour		5.10	15 30	
3 " White Lily "		6.25	18 75	
1 can Lard. 50 lbs.		.13	6 50	
4 Hams. 79 lbs.		.15	11 85	
4 bbls. White Lily Flour		6.50	26	
3000 lbs. Bran		11.25	33 75	
5 bu. Meal		.60	3	
Sales Cr. - Total Credit Sales				494 55

Illustration No. 16, Sales Book, January, Introductory Set.

total at the bottom of each page is entered between single and double red lines, on the first blank line below the last entry on the page.

¶ 4. *Cash Sales* may be entered in the cash book, or in the sales book and cash book. If entered in the cash book only, Sales is credited with the amount of the sale. If entered in both the sales and cash books, the entries are the same as a credit sale and a cash receipt from a customer; if an account is not to be opened with the person or firm to whom the sale is made, the entry is checked in both the sales and cash books. The nature of the business and the wishes of the management will determine which method is the better practice.

Illustration No. 16 shows the form of sales book used in this set. Other forms will be illustrated in succeeding sets.

Exercises in the Sales Book. Prepare on journal paper a sales book for each of the three exercises. Each exercise is to be ruled as shown in Illustration No. 16. The entries in Illustration No. 16 are the same as the first four sales in Exercise No. 33. The break in the Illustration shows a number of sales omitted.

Exercise No. 30, Sales Book.

Jan. 4. Sold A. R. Jennings, 105 Main St., on account, 11 lbs. Arbuckle coffee at 20c; 50 lbs. granulated sugar at 6c; 25 lbs. brown sugar at 5c; 60 lbs. bacon at 13c (§ 65, ¶ 1).

8. Sold Central Hotel, 22 Walnut St., on account, 5 bbls. Roller King flour at $5.10; 3 bbls. White Lily at $6.25; 3 hams, 45 lbs., at 13c; 100 lbs. granulated sugar at 6c; 25 scks. salt at 5c.

11. Sold A. R. Jennings, on account, 6 doz. cans peaches at $1.35; 5 doz. cans tomatoes at $1.10; 3 cans, 155 lbs. lard, at 13c; 2 bbls. White Lily flour at $6.25; 61½ lbs. bacon at 13c.

13. Sold M. A. Johnson, Kingston, on account, 3 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 1 can lard, 50 lbs., at 13c; 4 hams, 79 lbs., at 15c.

16. Sold Imperial Hotel, 200 Locust St., on account, 8 shoulders, 184 lbs., at 10c; 3 cans lard, 160 lbs., at 13c; 4 doz. cans peaches at $1.35; 4 doz. cans blackberries at $1.20.

Enter the total of the five sales in the Exercise between single and double red lines as shown at the bottom of Illustration No. 16.

Exercise No. 31, Sales Book.

Feb. 3. Sold E. M. Miller, 507 Gay St., terms 30 days, 50 bbls. flour at $4.50.

8. Sold William A. Wallace, Evanston, terms 30 days, 50 bbls. flour at $4.50; 200 bu. corn at 40c.

12. Sold B. T. Hart & Co., Maryville, terms 60 days, 25 bbls. flour at $4.50; 300 bu. oats at 38c; 200 bu. corn at 40c.

14. Sold D. T. Sinton, Uniontown, terms 10 days, 200 bu. oats at 36c.

18. Sold G. L. Frye, 29 Main St., terms 30 days, 500 bu. rye at 60c; 500 bu. oats at 36c; 600 bu. corn at 40c.

20. Sold Rue & Long, 54 Union St., terms 30 days, 250 bu. rye at 57c; 600 bu. corn at 35c.

23. Sold Henry Mason, Pittsburg, terms 20 days, 100 bu. corn at 40c; 60 bbls. flour at $4.50; 100 bu. oats at 35c.

27. Sold D. P. Lewis, 310 Chestnut St., terms 30 days, 500 bu. oats at 38c; 50 bu. rye at 60c.

28. Sold Maynard Pritchett, Brookville, terms 10 days, 300 bu. corn at 40c; 400 bu. oats at 38c.

Exercise No. 32, Sales Book.

Mar. 1. Sold R. L. Watson, 207 Mason St., terms 30 days, 1 pr. Queen City shoes, $4.50; 1 pr. Ladies' Patent Kid shoes, $3.00.
4. Sold C. A. Sheppard, Canton, terms 60 days, 3 prs. Ladies' Delight shoes at $1.50; 1 pr. rubbers, 75c.
9. Sold J. C. Wilson & Co., Hamilton, terms 30 days, 8 prs. Men's Calf shoes at $1.25; 14 prs. Men's Jefferson shoes at $1.65.
12. Sold A. R. King, Boston, terms 30 days, 1 pr. Ladies' Bal. at $2.50.
15. Sold W. E. Peters, Clinton, terms 30 days, 4 prs. Child's Satin Calf at 75c; 1 pr. Men's Vici Autocrat shoes, $5.00; 1 pr. Ladies' Brogans, $1.15.
18. Sold W. K. Love, 207 Main St., terms 30 days, 1 pr. Men's Vici Kid shoes, $5.00; 3 prs. Child's Satin Calf, at $1.15.
21. Sold A. R. King, terms 20 days, 1 pr. Women's Box Calf, $2.50; 1 pr. Boy's Box Calf, $2.50.
26. Sold C. A. Sheppard, terms 15 days, 1 pr. Men's Cong. Calf, $6.00.
30. Sold R. L. Watson, terms 10 days, 6 prs. Child's Satin Calf, at $1.15.

This exercise is to be posted in connection with Exercises Nos. 29 and 35. When approved, retain with No. 29 until No. 35 is completed.

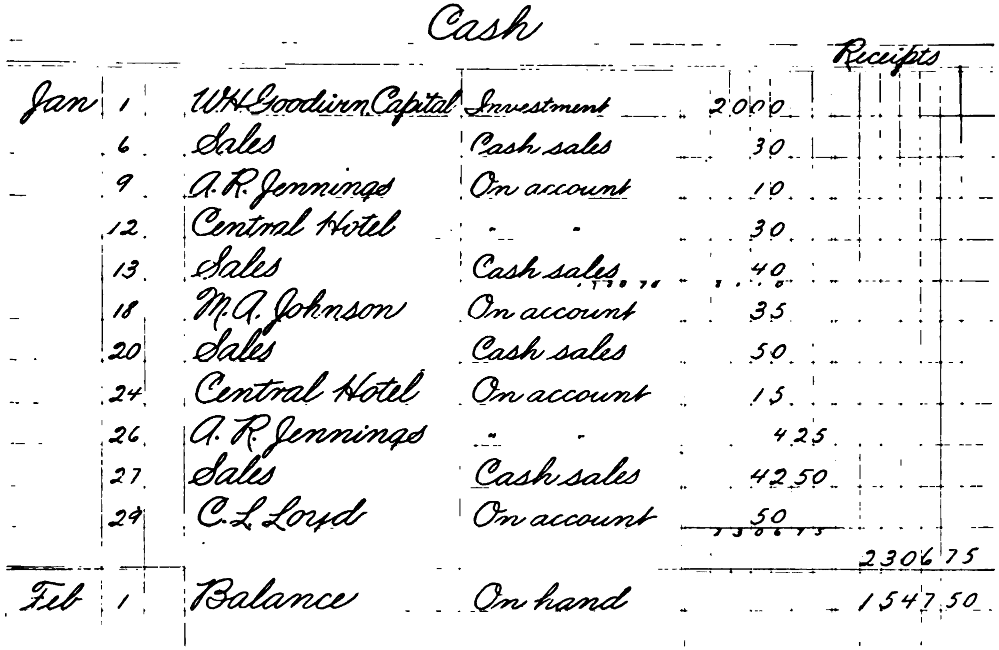
CASH BOOK.

§ **66. The Cash Book** is a book of original entry in which all receipts and payments of cash are recorded. In every business there are more transactions which affect the Cash account than any other account. If all these are entered in a special book for cash transactions, much time will be saved, since a journal entry requires the word "Cash" written for each debit or credit. The cash book is the detailed Cash account, and, when kept, the totals only are posted to the Cash account in the ledger. Since cash transactions affect the business in two ways, one when cash is received, and the other when it is paid, it is best to arrange the cash book so that transactions with cash received may be recorded on one page, and those with cash paid on another. These pages should be opposite each other. The receipts are written on the left, because cash is debited when money is received, and the payments on the right, because cash is credited when money is paid. Illustration No. 17 shows the debit side and No. 18 the credit side of the cash book used in this set.

¶ 1. *Debit Side.* This page contains a record of all transactions in which cash is received. It is the debit side because cash is debited when received. There are *three* important steps necessary to record a transaction on the debit side of the cash book: the date; the name of the person from whom the money is received, or the account credited, and the amount; the explanation or information for the auditor. These facts are all written on one line, and in the order named. When the month and day of the month are the same in more than one transaction, the date may be repeated or omitted.

If all the transactions in which cash is received are entered on the debit side of the cash book, the total of this side is the amount of cash received. This amount, plus the balance on hand at the beginning of the month, will be the cash on hand, if none has been paid. See Illustration No. 17 for form of the debit side of the cash book.

¶ 2. *Credit Side.* This page contains a record of all the transactions in which cash is paid. It is the credit side because cash is credited when paid. There are *three* important steps necessary to record a transaction on the credit side of the cash book: the date; the name of the person to whom the amount is paid, or account debited, and the amount; the explanation or information for the auditor.



Cash

					Receipts
Jan	1	W. H. Goodwin Capital	Investment	2000	
	6	Sales	Cash sales	30	
	9	A. R. Jennings	On account	10	
	12	Central Hotel	" "	30	
	13	Sales	Cash sales	40	
	18	M. A. Johnson	On account	35	
	20	Sales	Cash sales	50	
	24	Central Hotel	On account	15	
	26	A. R. Jennings	" "	4 25	
	27	Sales	Cash sales	42 50	
	29	C. L. Loyd	On account	50	
				2306 75	
					2306 75
Feb	1	Balance	On hand		1547 50

Illustration No. 17, Debit Side of Cash Book, January, Introductory Set.

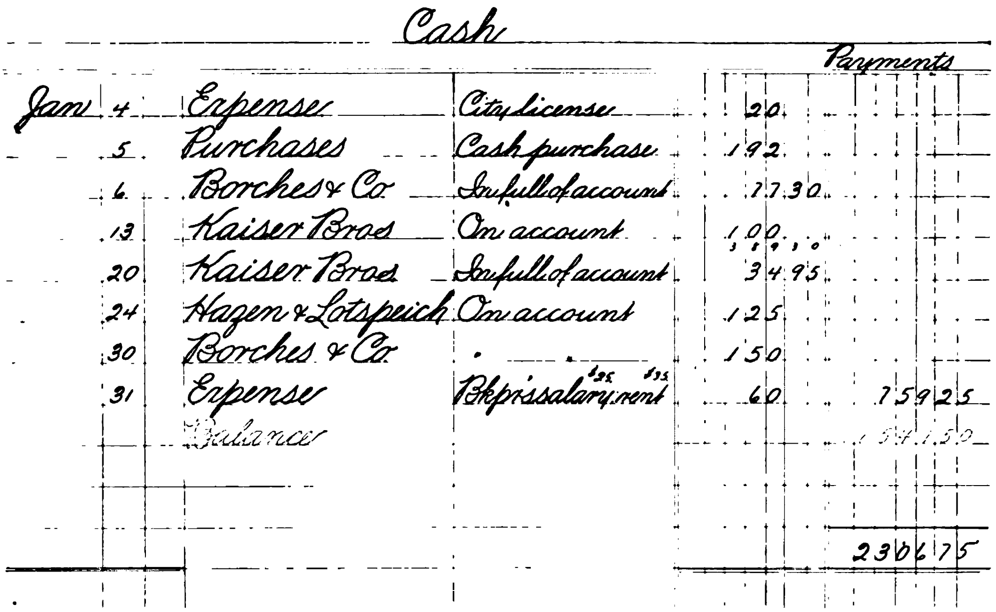
These are all written on one line, and in the order named. When the month and day of the month is the same in more than one transaction, the date may be repeated or omitted.

If all transactions in which cash is paid are entered on the credit side of the cash book, the total will represent the cash paid. See Illustration No. 18.

¶ 3. *To Prove Cash.* If all transactions in which cash is received are entered on the debit side, and all transactions in which cash is paid are entered on the credit side, the difference must be the amount of money on hand. This may be in the bank, the safe, or a part in each place. To prove cash, add the debit side and write the total in small pencil figures just beneath the last amount entered; add the credit side, and write the total in small pencil figures just beneath the last amount entered; on scratch paper add the balance on hand at the beginning of the month to the receipts, and from this amount deduct the payments; the result will be the cash on hand, as explained. The pencil figures on each side will be the total of all amounts written above; hence, when cash is proved, all amounts entered below the last preceding pencil figures are added to them. The cash book is not ruled until the end of the month.

¶ 4. *To Rule the Cash Book.* The cash book is ruled when a Trial Balance is made, which is usually at the close of each month. The balance is entered on the credit side with red ink, and carried down to the debit side on the same page, or forwarded to a new page. The book is ruled with single and double red lines on the same blue lines on each side, and the totals entered with black ink as shown in Illustrations Nos. 17 and 18.

¶ 5. *Posting from the Debit Side of the Cash Book.* Each amount in the first money column is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the ledger page in the L. F. column at the left of the name of the account in the cash book, and the cash book page in the folio column in the ledger. The letter "C" should be written to the left of the page in the ledger to show the book of original entry.



Cash

					Payments
Jan	4	Expense	City license	20	
	5	Purchases	Cash purchase	192	
	6	Borches & Co	In full of account	77 30	
	13	Kaiser Bros	On account	100	
	20	Kaiser Bros	In full of account	34 95	
	24	Hazen & Lotspeich	On account	125	
	30	Borches & Co		150	
	31	Expense	Bkpr's salary $25 & rent $35	60	759 25
		Balance			1547 50
					2306 75

Illustration No. 18, Credit Side of Cash Book for January, Introductory Set.

¶ 6. *Posting from the Credit Side of the Cash Book.* Each amount in the first money column is posted to the debit side of the account written on the same line with it. The posting is indicated by placing the ledger page in the L. F. column at the left of the name of the account in the cash book and the page of the cash book in the folio column in the ledger. The letter "C" should be written to the left of the page in the ledger, to show the book of original entry.

¶ 7. *Posting the Totals.* The Cash account in the ledger is debited with the total receipts and credited with the total payments. Some bookkeepers advise a Cash account in the ledger, while others accept the cash book as the only record of transactions with cash. A Cash account in the ledger will show the total receipts and total payments of cash for a period longer than one month, while the record in the cash book shows the total receipts and total payments for each month only.

Illustrations Nos. 17 and 18 show the form of cash book used in this set. Other forms will be illustrated in succeeding sets.

Exercises in the Cash Book. Prepare a cash book for each of the three exercises. Use the inside pages of a double sheet of journal paper. Rule the cash book required in each exercise, and bring down the balance as shown in the illustrations. References are to § 66, the paragraph number only is given. When the name of the account is mentioned in Exercises Nos. 33 and 34 it is printed in italics. Where the name of the account is not mentioned, reference is given to the section which describes it. Exercise No. 33 is the same as Illustrations Nos. 17 and 18. Since Exercises Nos. 33 and 34 are not to be posted, the folio column (space at the left in the illustration) is not needed in these exercises.

Exercise No. 33, Cash Book.

Jan. 1. *W. H. Goodwin* invested $2,000.00 in cash (¶ 1).
4. Paid $20.00 for city license (¶ 2) (Debit § 42).

(*Concluded on page 56.*)

(*Exercise No. 33—Continued from page 55.*)

Jan. 5. Paid City Milling Co. $192.00 for flour (¶ 2) (Debit §41a).
6. Received for cash sales, $30.00 (¶ 1) (Credit §41b).
Paid *Borches & Co.* $77.30, in full of account (¶ 2).
9. Received $10.00 from *A. R. Jennings* to apply on account (¶ 1).
12. Received $30.00 from *Central Hotel* to apply on account (¶ 1).
13. Received for cash sales, $40.00 (¶ 1) (Credit §41b).
Paid *Kaiser Bros.* $100.00 to apply on account (¶ 2).
18. Received $35.00 from *M. A. Johnson* to apply on account.
20. Paid *Kaiser Bros.* $34.95 in full of account.
Received for cash sales, $50.00 (Credit § 41b).
24. Received $15.00 from *Central Hotel* to apply on account.
Paid *Hazen & Lotspeich* $125.00 to apply on account.
26. Received $4.25 from *A. R. Jennings* to apply on account.
27. Received for cash sales, $42.50 (Credit § 41b).
29. Received $50.00 from *C. L. Loyd* to apply on account.
30. Paid *Borches & Co.* $150.00 to apply on account.
31. Paid sundry expenses, $60.00 (Debit § 42).
Cash balance, $1,547.50.

Exercise No. 34, Cash Book.

Feb. 1. Cash on hand, $1,276.80.
2. Received $150.00 from *E. H. White*, to apply on account (¶ 1).
3. Paid office rent for month of February, $40.00 (¶ 2) (Debit § 42).
4. Received $80.00 for cash sales (¶ 1) (Credit § 41b).
Paid *H. R. Swanson* $60.00, to apply on account (¶ 2).
6. Received $120.00 for cash sales (¶ 1) (Credit § 41b).
8. Paid *A. B. Hill* $90.50, to apply on account.
9. Received $90.00 from *J. K. Lachman* in payment of bill of Jan. 10.
10. Paid drayage on merchandise purchased, $22.50. (§41a, ¶3).
11. Paid *J. G. Pipkin* $124.00, to apply on account.
14. Received $69.75 for cash sales (Credit § 41b).
16. Received $170.00 from *P. B. S. Peters*, in payment of invoice of Jan. 10.
18. Paid $45.00 for office help (Credit § 42).
20. Paid *J. T. Ludlow* $146.00, to apply on account.
22. Purchased merchandise for cash from H. P. King, $128.00.
23. Sold I. H. Thomas, for cash, merchandise, $47.85.
24. Received $210.00 from *H. M. Lovert*, to apply on account.
25. Paid salesman's expenses, $76.00 (Debit § 42).
Received $52.50 for cash sales.
27. Paid $32.80 for freight and drayage on merchandise purchased.
Paid clerk hire, $40.00 (Debit § 42).
28. Paid for advertising $22.50 (Debit § 42).
Cash balance, $1,439.60.

Exercise No. 35, Cash Book.

This exercise is to be posted in connection with Exercises Nos. 29 and 32, hence a folio column should be ruled on each side before the transactions are recorded.

Mar. 1. C. U. Steele invests $2,500.00 cash in the retail shoe business.
2. Bought from M. B. Arnstine, for cash, stock of shoes invoiced at $1,691.42.
3. Paid telephone service for three months, in advance, $20.00.
Received $69.85 for cash sales.

(*Concluded on page 57.*)

(*Exercise No. 35—Continued from page 56.*)

Mar. 5. Paid clerk hire, $10.00.
6. Received $7.50 from R. L. Watson in full of account.
8. Paid Bay State Shoe Co. $496.81 in full of account.
9. Received $275.40 for cash sales.
12. Paid clerk hire, $10.00.
13. Paid $75.00, premium on insurance policy (§42, ¶1).
15. Paid Haynes, Henson & Co. $387.65 in full of account.
16. Received $5.25 from C. A. Sheppard in full of account.
18. Paid $8.25 for stamps and stationery.
19. Paid clerk hire, $10.00.
22. Received $33.10 from J. C. Wilson & Co., in full of account.
24. Received $8.45 from W. K. Love, in full of account.
26. Received $581.92 for cash sales.
Paid clerk hire, $10.00.
27. C. U. Steele withdrew $50.00 (§44, ¶2).
29. Received $2.50 from A. R. King, in full of bill charged on the 12th.
31. Paid rent, $50.00.
Paid Cline Shoe Co. $168.42 in full of invoice purchased March 6th.
Received $361.92 for cash sales.
Cash balance, $858.34.

When this exercise has been approved, post together with exercises Nos. 29 and 32 as instructed in § 65, ¶¶ 2 and 3, § 64, ¶¶ 2 and 3 and § 66, ¶¶ 5, 6 and 7. Allow five blank lines for each account. When the posting is completed, check, take a Trial Balance, and present it together with the exercises and ledger accounts to the teacher for approval.

§ 67. **Order of Posting.** When transactions are being recorded in the purchases book, sales book, journal and cash book, post the amounts in the following order: purchases book, sales book, journal, debit side of the cash book, and credit side of the cash book.

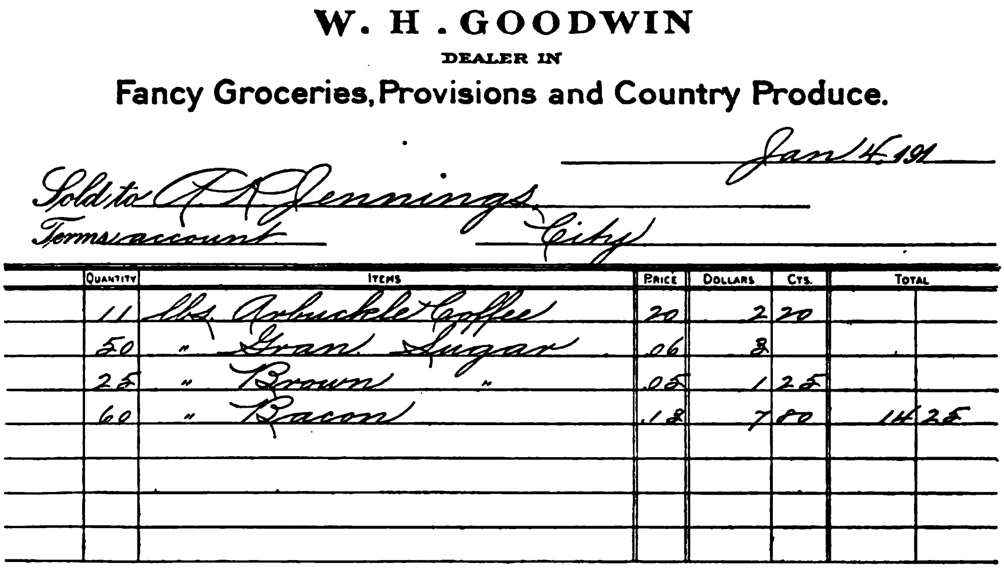
GENERAL INFORMATION.

§ 68. **Business Papers** are, aside from the personal instructions of his employer, the only evidence to the bookkeeper that a transaction has been made. They consist of bills or invoices, receipts, checks, notes, drafts, orders, statements, shipping invoices, account of sales, telegrams, etc. The use of each will be explained as it is introduced. In January only two are used, bills or invoices, and receipts.

§ 69. **Bills or Invoices.** When goods are purchased or services rendered, the written statement, describing the same and showing the value, is called a bill or an invoice. These terms are used interchangeably; that is, sometimes a list of items bought is called a bill and sometimes an invoice. To avoid confusion, in the instructions in this work, the list of goods *purchased* by the proprietor will be termed an *invoice*, and that of goods *sold* by him, a *bill*.

A bill is rendered that the purchaser may know that all of the goods ordered have been received, and that the calculations relative to their value have been made correctly. It should show the name of the seller, the date, the name of the purchaser and his address, the terms, a description of the goods, the value of each item, and the total. In all calculations where the result is a fraction of one cent, the fraction is regarded as a cent if its value is one-half or more; if less than one-half it is discarded. See Illustration No. 19 for the form of a bill.

¶ 1. *Terms, "On Account."* When credit is allowed or received, for property sold or purchased, and no fixed time for payment is mentioned, the sale or purchase is said to be "On account." Legally, the amount is due, and could be collected as soon as the property is delivered, but custom has fixed the time of payment as the first of the following month. If no terms are stated, this will be understood.



W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

Jan 4 191

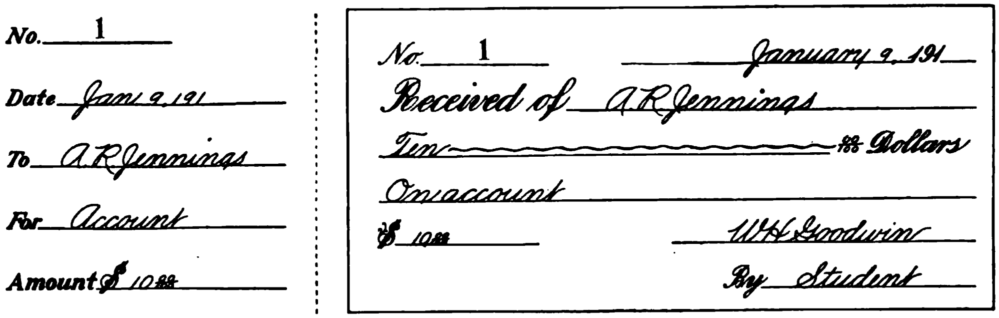
Sold to A R Jennings

Terms account City

	Quantity	Items	Price	Dollars	Cts.	Total	
	11	lbs Arbuckle Coffee	20	2	20		
	50	" Gran. Sugar	.06	3			
	25	" Brown "	.05	1	25		
	60	" Bacon	.18	7	80	14	25

Illustration No. 19, Bill for Sale, January 4, Introductory Set.

§ **70. Receipt.** A receipt is a written acknowledgment from the receiver to the giver, of money or other property received in payment for some form of indebtedness. It is not customary to give receipts when the property is paid for



No. 1

Date Jan 9 191

To A R Jennings

For Account

Amount $ 10 00

No. 1 January 9 191

Received of A R Jennings

Ten ——————— 00 Dollars

On account

$ 10 00 W H Goodwin

By Student

Illustration No. 20, Receipt given A. R. Jennings, January 9, Introductory Set.

at the time of the purchase. Receipts should be bound in book form, and each one provided with a stub, so that a permanent record of each receipt issued may be kept. The stub should be filled out first in order that it may not be forgotten or filled out incorrectly.

§ 71. **Duties of a Bookkeeper.** In general it is the duty of the bookkeeper to audit incoming papers, write outgoing papers, make a record of the transactions, post these to the ledger, take a Trial Balance, make a Statement of the Business and close the ledger. The efficient bookkeeper must be accurate, rapid in making calculations and have a thorough knowledge of the principles of bookkeeping and accounting.

§ 72. **Auditing Incoming Papers.** The efficient bookkeeper will not accept a business paper as correct until he has proved it by a careful audit. The fact that an invoice is made out in correct form does not indicate that the extensions are correct. The same is true of checks, notes, drafts, freight bills and other business papers which represent transactions. An audit of a business paper is indicated by check marks to the left or right of the figures, and also by the name or initial of the person making the audit.

§ 73. **Writing Outgoing Papers.** Each sale requires a bill, and, unless a bill clerk is employed, it is the duty of the bookkeeper to make this. He may also be required to write checks, notes and other business papers.

§ 74. **License.** The advantages and protection of modern civilization do not come free of charge to those who have property. The expenses of the government must be paid, and to do this, taxes are levied. There are two methods of taxation; one by charging a certain per cent of the value of the property, and the other by charging for certain privileges. The right to grant these privileges is retained by the government. The latter is termed "License," and is a charge paid by those who engage in business. Usually no license is charged for disposing of articles grown by the seller, or those manufactured for his own use. Licenses are granted by an incorporated city, a county, a state, or the United States government.

§ 75. **Files.** Every well-regulated business office is equipped with filing devices in which to file incoming papers and copies of outgoing papers. These are filed alphabetically or numerically, thus providing a ready reference when needed. The correct filing of business papers is essential to the success of the business. The auditor will expect the bookkeeper to substantiate each transaction with the business paper that represents it.

FISCAL PERIOD.

§ 76. **The Object of all Investment** in business is profit, that is, increase in the value of the property invested. Since this is the object, it is evident that every person who invests property in a business enterprise will want to know the condition of the business at least once each year, and, to learn this, will require the bookkeeper to make a statement showing the profits or losses for the period. The time that elapses between the beginning of the business and the first statement of the business, or between the last statement and the present one, is the "Fiscal Period." This may be one year or any fraction of a year, according to the nature of the business and the wishes of the investors. The end of a fiscal period is sometimes called the "closing time," because at that time the books are closed. The current fiscal period is the time that has elapsed since the beginning of the business, or the end of the last fiscal period. To illustrate: A. L. Jones invests $2,000.00 in the grocery business, January 1, 1917. June 30 of the same year he wishes to know the condition of the business, and requires his bookkeeper to make a statement of the business. At that time the current fiscal period is the time between January 1 and June 30. At the close of December 31, 1917, he wishes to know the condition of the business, and requires the bookkeeper to make another statement. At that time the current fiscal period is the time between June 30 and December 31, and the previous fiscal period is the one from January 1 to June 30.

The law enacted by Congress fixing a tax on incomes designates the time when the business shall submit the facts necessary to assess the tax. Since a Statement of the Business is necessary in order to make the correct returns, the time fixed by this law is usually accepted by the business as the close of its fiscal period.

At the close of each current fiscal period it is necessary to "take stock," that is, to ascertain the present value of salable merchandise on hand, as this is one of the principal assets of the business.

INVENTORY.

§ 77. **An Inventory** is a list of property belonging to the business at the close of the fiscal period, the value of which is not shown by an account in the ledger. The total value of the property is also referred to as the inventory.

¶ 1. *Merchandise Inventory.* This is the value of the salable merchandise in stock at the close of the fiscal period. The value of the inventory is ascertained by "taking stock," that is, making a list of all the merchandise on hand, at the proper price. This list contains the number of articles of each class, the description, the value of each class, and the total value of all the merchandise as shown in Illustration No. 21. The inventory is usually valued at the cost price, that is, the invoice price, plus the freight and drayage cost.

¶ 2. *When the Market Price is Used.* The market price is used (a) when this is less than cost, and (b) when there is a change in the ownership of the business. The market price should be used when it is less than cost, for there is a possible loss on account of the decrease in price, and conservative accounting demands that all probable losses be provided for at the end of the fiscal period. If it is desired, the inventory may be taken at cost, when the market price is lower than cost, and a reserve be created for the difference between the market price and the cost price. The market price should be used when there is a change of ownership, whether it be higher or lower than cost, for the parties making the sale should receive the benefit of an increase and they should make good any decrease in value.

Except in case of a change in the ownership of the business, the inventory should never be valued at more than cost price, for this would create on the books a profit which has not been realized, which is contrary to sound accounting principles. Profits can arise only as the result of sales and should not be anticipated in making the Statement of the Business.

¶ 3. *Going Inventory of Merchandise.* Some concerns maintain a going inventory of merchandise carried in stock for sale. This is effected by keeping an account with each separate class of merchandise, debiting it with the number of units when purchased, and crediting it with the number of units when sold. This plan is very satisfactory in certain lines, such as: furniture, shoes, hardware, etc., because the units sold are the same as the units bought. When this plan is followed it is necessary to prove the results of these accounts by "taking stock," because of the many errors that may be made in handling merchandise, and the possibility of articles being destroyed or stolen.

¶ 4. *Deductions.* Shelf-worn merchandise is inventoried at a price fixed by the management. This class of merchandise includes ladies' dress goods, men's clothing and furnishings, shoes and other articles that decrease in value on account of the change in styles. Deductions from cost price on account of merchandise being shelf-worn or out of style should be taken care of through a reserve account.

MERCHANDISE INVENTORY, JANUARY 31, 191

73	lbs.	Granulated Sugar. . . . .(per 100#)	$ 3.40	2	48
196	"	Brown Sugar . . . . " "	3.20	6	27
1	doz.	Ivory Soap.	.35		35
3	"	Blacking.	.30		90
46	lbs.	Arbuckle Coffee	.10	4	60
13	"	Tea	.25	3	25
38	gal.	Coal Oil.	.09	3	42
646	lbs.	Bacon.	.10	64	60
493	"	Ham.	.10	49	30
1388	"	Shoulder.	.06	83	28
119	"	Lard	.10	11	90
24	doz.	cans Tomatoes	.65	15	60
35	gal.	Syrup	.25	8	75
8	bu.	Irish Potatoes.	.80	6	40
10	bu.	Sweet Potatoes.	.60	6	
127	lbs.	Trent Tobacco	.35	44	45
42	"	Smoking Tobacco	.30	12	60
3863		Daniel Boone Cigars. . . . .(per 1000)	33.00	127	48
1896		Key West Cigars. . . . . " "	16.00	30	34
23	bbls.	Roller King Flour.	3.25	74	75
24	"	White Lily Flour	3.85	92	40
36	bu.	Meal	.50	18	00
80	lbs.	Creamery Butter	.28	22	40
98	doz.	Eggs.	.16	15	68
3	bu.	Beans.	1.00	3	
9261	lbs.	Hay . . . .(per ton of 2000#)	17.65	81	73
73	bu.	Corn	.40	29	20
78	bu.	Oats	.31½	24	57
5963	lbs.	Bran. . . . . (per 1000#)	6.50	38	76
		Value of merchandise on hand		882	46

Illustration No. 21, Merchandise in Stock, January 31, Introductory Set.

§ 78. **Resource Inventory.** A list of the prepaid advertising, unexpired insurance, accrued interest, etc., is sometimes referred to as a resource inventory. These are inventories in a certain sense, but are best treated as accrued assets or deferred charges to operations, according to their nature. These are fully explained in succeeding sets.

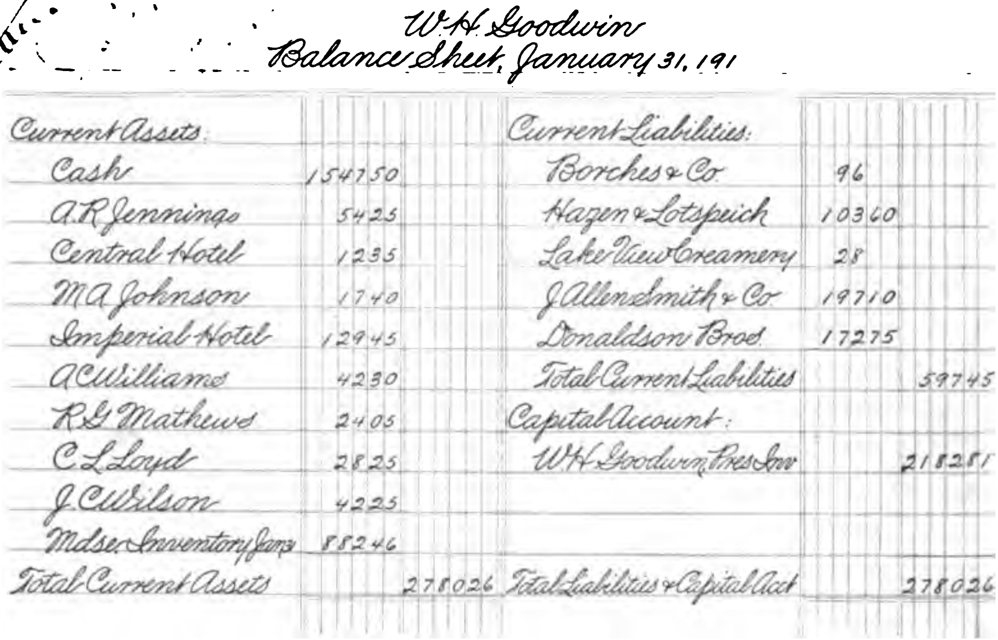
§ 79. **Liability Inventory.** A list of the interest owed by the business but not due, unpaid pay roll, subscriptions collected in advance, interest collected in advance, etc., is sometimes referred to as a liability inventory. These are best treated as accrued liabilities or deferred credits to income according to their nature. These are fully explained in succeeding sets.

STATEMENT OF THE BUSINESS.

§ 80. **At the Close of each Fiscal Period** the bookkeeper is required to make a statement showing the present condition of the business. This must show the assets, liabilities, present capital, profits, losses and the net profit or net loss. The facts are obtained from the inventory and the Trial Balance. It is customary to make two distinct statements—the Balance Sheet and the Profit and Loss statement. The Balance Sheet is usually made first and proved to be correct by the Profit and Loss statement.

§ 81. **Balance Sheet.** This shows the assets, liabilities and present capital of the business at the close of the fiscal period. The assets are usually arranged on the left and the liabilities and present capital on the right, as shown in Illustration No. 22.

¶ 1. *The Assets* are usually listed as follows: Cash, Notes Receivable, Personal accounts, Merchandise Inventory (salable goods on hand), and other Fixed



W H Goodwin
Balance Sheet, January 31, 191

Current Assets:			Current Liabilities:		
Cash	1547 50		Borches & Co.	96	
A R Jennings	54 25		Hazen & Lotspeich	103 60	
Central Hotel	12 35		Lake View Creamery	28	
M A Johnson	17 40		J Allen Smith & Co.	197 10	
Imperial Hotel	129 45		Donaldson Bros.	172 75	
A C Williams	42 30		Total Current Liabilities		597 45
R G Mathews	24 05		Capital Account:		
C L Loyd	28 25		W H Goodwin Pres Inv		2182 81
J C Wilson	42 25				
Mdse Inventory Jan 31	882 46				
Total Current Assets		2780 26	Total Liabilities & Capital Acct		2780 26

Illustration No. 22, Balance Sheet, January 31, Introductory Set.

Explanation: This statement shows the assets, liabilities and Present Capital of W. H. Goodwin at the close of the current fiscal period, ending January 31. At this time the only assets are Cash, Accounts Receivable, and Merchandise; the only liabilities are Accounts Payable. If there had been a number of personal accounts, these would have been shown on a separate sheet of paper, and the totals only shown as "Personal Accounts" on the Balance Sheet.

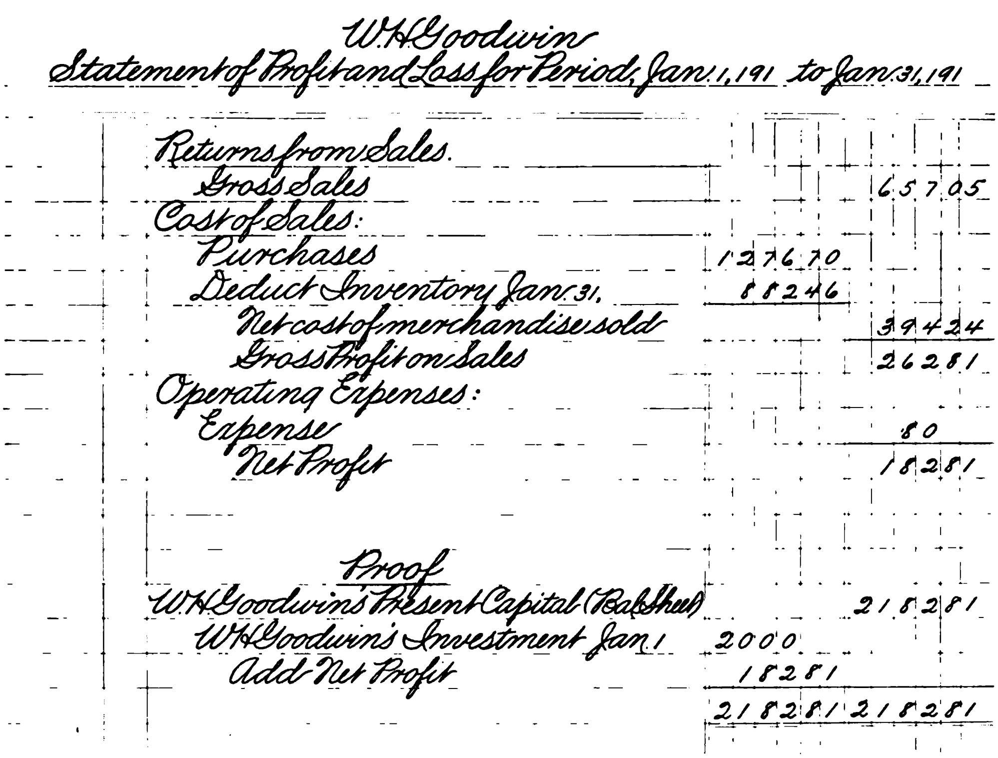
Assets. The total of the various asset accounts is the present capital, if there are no outstanding obligations.

¶ 2. *The Liabilities* are listed in the following order: Notes Payable, Accounts Payable. The total of these equals the total liabilities, that is, the outstanding obligations, which are to be paid by the business.

¶ 3. *The Present Capital or Present Worth* of the business is the difference between the total assets and total liabilities. The net profit shown by the Profit and Loss statement, added to the net investment (balance of the Capital account) is the present capital. If the Profit and Loss statement shows a loss, the amount of this loss is deducted from the net investment.

§ 82. **Profit and Loss Statement.** This shows the gross profit on sales, the operating expenses, other income, deductions from income, and the net profit or loss for the fiscal period. These are usually arranged in the order mentioned.

¶ 1. *Gross Profit on Sales.* This is obtained by deducting the net cost of merchandise sold (merchandise on hand at the beginning of the period, plus the cost of merchandise purchased during the period, minus the value of goods on hand at the close of the period) from the net returns from sales (total cash and credit



W. H. Goodwin

Statement of Profit and Loss for Period, Jan. 1, 191 to Jan. 31, 191

Returns from Sales.		
Gross Sales		657 05
Cost of Sales:		
Purchases	1276 70	
Deduct Inventory Jan. 31.	882 46	
Net cost of merchandise sold		394 24
Gross Profit on Sales		262 81
Operating Expenses:		
Expense		80
Net Profit		182 81
Proof		
W. H. Goodwin's Present Capital (Bal. Sheet)		2182 81
W. H. Goodwin's Investment Jan. 1	2000	
Add Net Profit	182 81	
	2182 81	2182 81

Illustration No. 23, Profit and Loss Statement, January 31, Introductory Set.

Explanation: This shows the profits, losses and net profit of the business conducted by W. H. Goodwin, at the close of the fiscal period ending January 31. At this time the only profit is the gross profit on sales, that is the profit on merchandise sold. The only loss is the expenses, balance of the Expense account. The facts concerning the profit on merchandise sold are obtained from the Inventory January 31, and the Purchases, and Sales accounts. This is the first fiscal period for the business, hence there was no inventory at the close of the preceding fiscal period.

sales, minus any deductions for rebates or allowances). The statement of the facts in connection with ascertaining the gross profit on sales is usually made a part of the Profit and Loss statement, but may be shown as a separate schedule termed the Trading Statement.

¶ 2. *Operating Expense.* This is represented by one Expense account, or various accounts with expense. The total is the operating expense, or the cost of conducting the business for the fiscal period.

¶ 3. *Other Income.* This is represented by the credit balances of profit accounts, and may be, Interest, Discount, Commission, Profit on Real Estate, etc. (If any of these accounts show a debit balance, they are listed as deductions from income, ¶ 4.)

¶ 4. *Deductions from Income.* These are represented by the debit balances of loss accounts, and may be, Interest, Discount, Commission, etc. (If any of these accounts show a credit balance, they are listed with the other income).

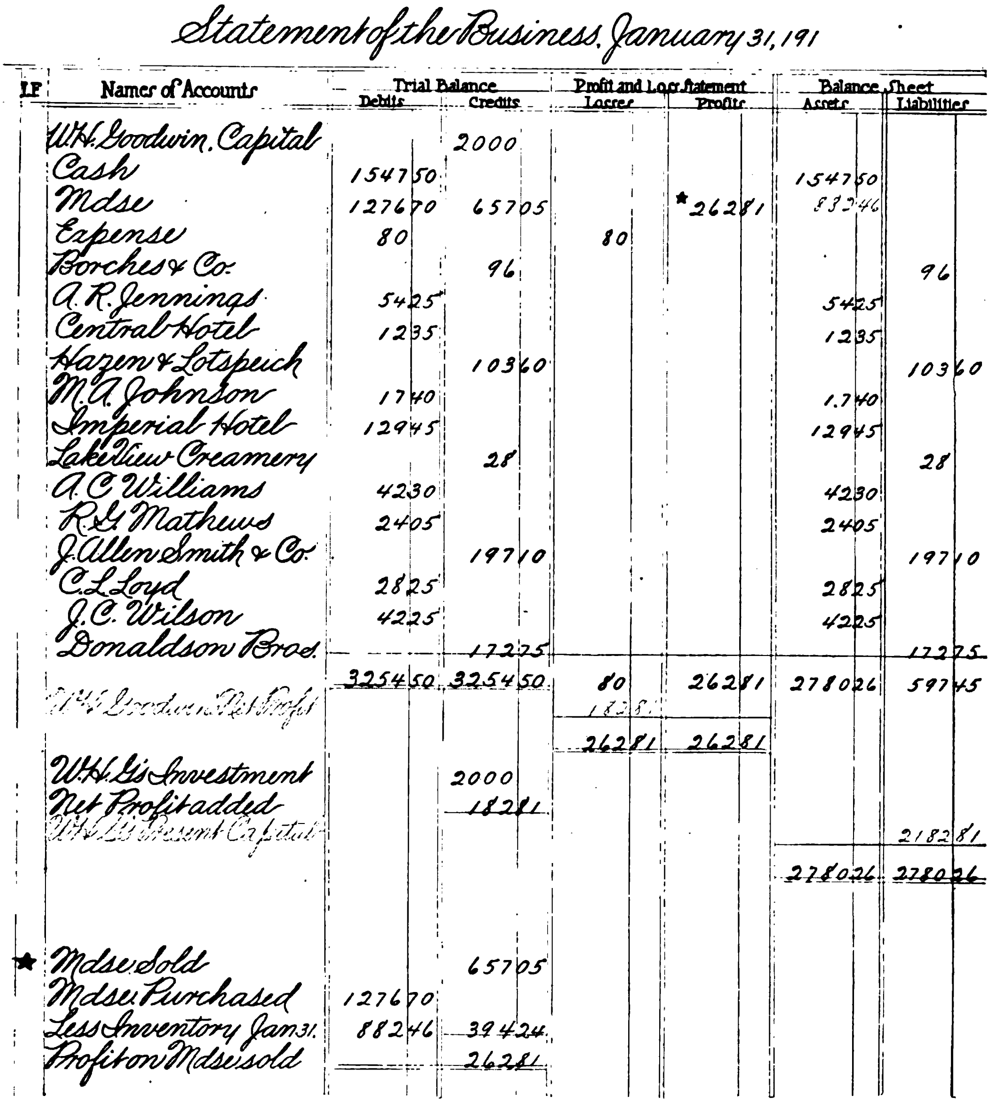
¶ 5. *The Net Profit* is the gross profit on sales (¶ 1) less the operating expense (¶ 2), plus additional profits or income (¶ 3), less deductions from income (¶ 4). If the operating expense and deductions from income exceed the gross profit on sales and additional income, the business has been operated at a loss. The profit as shown by the Profit and Loss statement added to the net investment (investment at the beginning, plus additional investments and minus withdrawals) must equal the Present Capital as shown by the Balance Sheet.

¶ 6. *No Facts* shown by either the Balance Sheet or the Profit and Loss statement can be accepted as correct unless the net profit as shown by the Profit and Loss statement is the same as the difference between the Present Capital shown by the Balance Sheet, and the investment.

✓ § 83. **Six Column Statement.** Illustration No. 24 shows another form of the Statement of the Business, sometimes referred to as a Balance Sheet. It is ruled with six columns—two for the debits and credits in the Trial Balance, two for the Profit and Loss statement and two for the Balance Sheet. The trading accounts used in ascertaining the gross profit on sales are shown separate from the Profit and Loss statement. The inventories are entered in red ink because the amounts are not represented on the Trial Balance.

¶ 1. *Working Sheet.* Accountants frequently use this form as a preliminary step to making the Balance Sheet and Profit and Loss statement. When so used, it is referred to as a working sheet. If a number of adjustments are necessary, two additional columns may be provided for these. The student of bookkeeping is advised to study this form that he may understand its connection with the statement of the business.

¶ 2. *Instructions for Making a Six Column Statement.* Write the names of the accounts as they appear on the Trial Balance in the space at the left, and place the debits and credits in the two columns provided for them. Write the Inventory of Merchandise in red ink in the Assets column. Rule the Trial Balance with single and double lines, and place the totals between the two. Extend the losses into the Losses column, the profits into the Profits column, the assets into the Assets column, and the liabilities into the Liabilities column. The calculations necessary to ascertain the gross profit on sales may be shown at the bottom as in Illustration No. 24, or on a separate sheet of paper. Foot all the columns on the line with the footings of the Trial Balance, and draw a single red line all the way across; this is a continuation of the single red line under the Trial Balance. The difference between the Profit and Loss columns is entered with red ink, and these columns are footed and ruled. The net profit is added to the investment, and the total of the two, which is the present net capital, is entered with red ink, in the Liabilities column, because the difference between the assets and liabilities is the present net capital. These columns are ruled and the footings entered. Illustration No. 24 shows the Six Column Statement for January 31.



Statement of the Business, January 31, 191

LF	Names of Accounts	Trial Balance		Profit and Loss Statement		Balance Sheet	
		Debits	Credits	Losses	Profits	Assets	Liabilities
	W.H. Goodwin, Capital		2000				
	Cash	1547 50				1547 50	
	Mdse	1276 70	657 05		*262 81	882 46	
	Expense	80		80			
	Borches & Co.		96				96
	A.R. Jennings	54 25				54 25	
	Central Hotel	12 35				12 35	
	Hazen & Lotspeich		103 60				103 60
	M.A. Johnson	17 40				17 40	
	Imperial Hotel	129 45				129 45	
	Lake View Creamery		28				28
	A.C. Williams	42 30				42 30	
	R.G. Mathews	24 05				24 05	
	J. Allen Smith & Co.		197 10				197 10
	C.L. Loyd	28 25				28 25	
	J.C. Wilson	42 25				42 25	
	Donaldson Bros.		172 75				172 75
		3254 50	3254 50	80	262 81	2780 26	597 45
	W.H. Goodwin, Net Profit			182 81			
				262 81	262 81		
	W.H.G.'s Investment		2000				
	Net Profit added		182 81				
	W.H.G.'s Present Capital						2182 81
						2780 26	2780 26
★	Mdse Sold		657 05				
	Mdse Purchased	1276 70					
	Less Inventory Jan 31.	882 46	394 24				
	Profit on Mdse sold		262 81				

Illustration No. 24, Six Column Statement, January 31, Introductory Set.

Explanation: The Trial Balance is shown in the first two money colums at the left, the Profit and Loss statement in the next two columns, and the Balance Sheet in the two columns at the right. The purchases and sales of merchandise are shown by one Merchandise account; this is debited with the purchases and credited with the sales. The facts concerning the gross profit on sales are obtained from this account, and shown at the bottom of the sheet; these may be shown on a separate sheet if desired. The inventory of merchandise is written with red ink to show that it is not an account on the Trial Balance; two special columns may be provided for inventories if desired. The net profit balances the Profit and Loss column and this added to the investment balances the Assets and Liabilities columns; this proves the correctness of the work. When used as a working sheet (§83, ¶1,) the inventories are entered in two extra columns between the Trial Balance and the Profit and Loss statement, and the investment extended into the Liabilities column; the difference between the profits and losses and the assets and the liabilities will each show the net profit, thus proving the correctness of the work.

Exercises in Preparing the Statement of the Business. Prepare a Statement of the Business consisting of the Balance Sheet and Profit and Loss statement from each of the following Trial Balances. The inventory of merchandise is given below the Trial Balance. Exercise No. 38 is the same as Illustrations Nos. 22 and 23. Use journal paper and rule as shown in the illustrations.

Exercise No. 36. Balance Sheet and Profit and Loss Statement.

Trial Balance, A. Ragland, March 31, 191

A. Ragland Capital			2500	
Cash	2216	50		
Purchases	1654	10		
Sales			996	58
Expense	107	50		
A. C. Briscoe			127	50
A. L. Lesseman	62	50		
Mays Bros			92	85
B. C. Bacon	13	50		
J. J. Hornback			209	65
E. E. Admire			127	52
	4054	10	4054	10

Merchandise Inventory, $927.36. Use the two inside pages of a double sheet of journal paper for the Balance Sheet, if you do not have paper with the balance sheet ruling.

Exercise No. 37. Balance Sheet and Profit and Loss Statement.

Trial Balance, T. B. Bridges, February 28, 191

T. B. Bridges, Capital			1500	
Cash	1215	50		
Purchases	1116	75		
Sales			718	10
Expense	50	50		
Johnson Bros			218	75
Rice & Marx			197	62
E. K. Isaacs	125	18		
J. C. Sisk	110	15		
W. W. Moore	62	50		
A. L. Peer			46	11
	2680	58	2680	58

Merchandise Inventory, $565.40. Use the two inside pages of a double sheet of journal paper for the Balance Sheet, if you do not have paper with the balance sheet ruling.

Exercise No. 38. Balance Sheet and Profit and Loss Statement.

Trial Balance, W.H. Goodwin, January 31, 191

W.H. Goodwin, Capital			2000	
Cash	1547	50		
Purchases	1276	70		
Sales			657	05
Expense	80			
Borches & Co.			96	
A.R. Jennings	54	25		
Central Hotel	12	35		
Hazen & Lotspeich			103	60
M.A. Johnson	17	40		
Imperial Hotel	129	45		
Lake View Creamery			28	
A.C. Williams	42	30		
R.G. Mathews	24	05		
J. Allen Smith & Co.			197	10
C.L. Loyd	28	25		
J.C. Wilson	42	25		
Donaldson Bros.			172	75
	3254	50	3254	50

Merchandise Inventory, $882.46. This Trial Balance shows the same results as the one for January 31 in the introductory set. The Balance Sheet and Profit and Loss statement in Illustrations Nos. 22 and 23 are prepared from this Trial Balance and the merchandise inventory.

CLOSING THE LEDGER.

§ 84. **The Object of Closing the Ledger** is to provide in the ledger a permanent record of the financial condition of the business as shown by the Statement of the Business at the close of the fiscal period. To accomplish this, it is necessary to close all accounts that show a profit or a loss into a Profit and Loss account. When these accounts are closed, the balance of the Profit and Loss account is the same as the net profit or net loss shown by the Profit and Loss statement. The Profit and Loss account is closed into the Capital account or accounts. After the ledger is closed, there are no accounts open except those shown on the Balance Sheet. There are two methods of closing the ledger,—the direct transfer method and the journal entry method.

¶ 1. *Direct Transfer or "Red Ink" Method.* By this method all the accounts that show a profit or loss are closed into the Profit and Loss account by transferring the balance of each account to the proper side of the Profit and Loss account, without making a record of this transfer in a book of original entry. Since the balance of each account which is closed is written with red ink to indicate that it has been transferred to some other account, this method is sometimes termed the "red ink" method of closing. See Illustrations Nos. 25, 26, 27 and 28.

¶ 2. *Journal Entry Method.* By this method an entry is made in the journal which transfers the balance of each account showing a profit or a loss to the Profit and Loss account. Accountants recommend the use of the journal entry method because it furnishes a record in a book of original entry of all transfers made in the ledger. See Illustration No. 29.

Purchases

191 Jan.	5		C3	192		191 Jan.	31	Inventory		882	46
	31		P1	1084	70			Sales	2	394	24
				1276	70					1276	70
Feb.	1		✓	882	46						

Sales

191 Jan.	31	Purchases	2	394	24	191 Jan.	6		C2	30	
		Profit & Loss	3	262	81		13		2	40	
							20		2	50	
							27		2	42	50
							31		S4	494	55
				657	05					657	05

Illustration No. 25, Purchases and Sales accounts closed into Profit and Loss.

Expense

191 Jan.	4		C3	20		191 Jan.	31	Profit & Loss	4	80	
			C3	60							
				80						80	

Illustration No. 26, Expense account closed into Profit and Loss.

Profit and Loss

191 Jan.	31	Expense	4	80		191 Jan.	31	Sales	3	262	81
	31	W. H. Capital	1	182	81						
				262	81					262	81

Illustration No. 27, Profit and Loss account closed into the Proprietor's account.

W. H. Goodwin, Capital

191 Jan.	31	Present Capital	✓	2182	81	191 Jan.	1		C2	2000	
							31	Net Profit	4	182	81
				2182	81					2182	81
						Feb.	1	Present Capital	✓	2182	81

Illustration No. 28, W. H. Goodwin, Capital account closed.

Explanation: These illustrations show the accounts on the Profit and Loss Statement, Illustration No. 23, closed by the red ink or transfer method, as explained in § 84 ¶ 1. In each case, the entry to close the account is written with red ink, and the entry for the balance transferred to the account into which it is closed is written with black ink.

January 31, 191

Inventory	882	46		
Purchases			882	46
Mdse Inventory at the close of the fiscal period				
31				
Sales	394	24		
Purchases			394	24
To close the Purchases account into the Sales account				
31				
Sales	262	81		
Profit and Loss			262	81
To close the Sales account into the Profit and Loss account				
31				
Profit and Loss	80			
Expense			80	
To close Expense into Profit and Loss.				
31				
Profit and Loss	182	81		
W. H. Goodwin, Capital			182	81
To close Profit and Loss into Capital account.				

February 1, 191

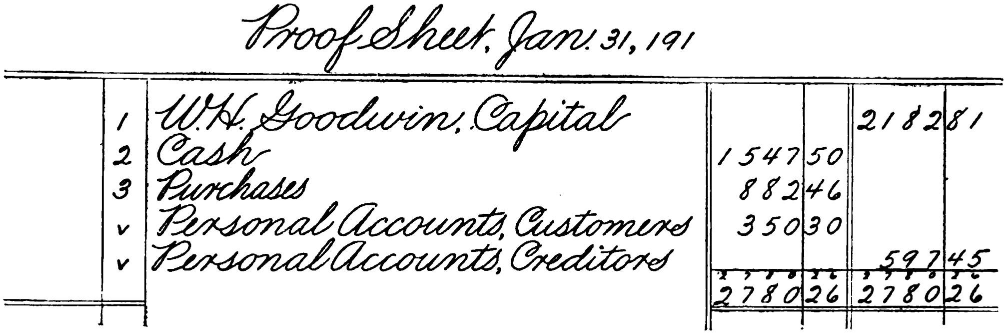
Purchases	882	46		
Inventory			882	46
To close the Inventory account into the Purchases account.				

Illustration No. 29,
Journal Entries to close the ledger, January 31. Introductory Set.

Explanation. The purpose of the first entry is to enter the inventory on the books. The purpose of the second, third, fourth and fifth entries is to close the accounts on the Profit and Loss statement in Illustration No. 23.

The purpose of the sixth entry is to transfer the inventory or value of goods on hand at the close of the fiscal period, to the debit side of the Purchases account as explained in § 41a, ¶ 1. When this entry is posted, the Inventory account will balance, and it is ruled with double red lines. The debit side of the Purchases account will then show the value of merchandise on hand.

§ 85. **Proof Sheet.** After all the accounts in the ledger that show a profit or loss have been closed into the Profit and Loss account, and the balance of this account closed into the Capital account or accounts, the bookkeeper should make a list of all the debit and credit balances in the ledger similar to that shown in Illustration No. 30. If his work has been performed correctly, the total of the debit balances will equal the total of the credit balances. This form is usually called a "Proof Sheet" or a "Final Trial Balance." It contains all the open accounts in the ledger.



Proof Sheet, Jan. 31, 191

1	W. H. Goodwin, Capital			2182	81
2	Cash	1547	50		
3	Purchases	882	46		
v	Personal Accounts, Customers	350	30		
v	Personal Accounts, Creditors			597	45
		2780	26	2780	26

Illustration No. 30, Proof Sheet, January 31, Introductory Set.

QUESTIONS.

1. What is the object of the purchases book? (§ 64.)
2. Describe the method of posting from the purchases book. (§ 64, ¶ 2.)
3. What is the object of the sales book? (§ 65.)
4. Describe the method of posting from the sales book. (§ 65, ¶ 2.)
5. Describe the method of forwarding the totals of each page. (§ 65, ¶ 3.)
6. What is the object of the cash book? (§ 66.)
7. What account in the ledger does the cash book represent?
8. What transactions are entered on the debit side of the cash book? (§ 66, ¶ 1.) On the credit side? (§ 66, ¶ 2.)
9. What does the difference between the two sides show? (§ 66, ¶ 3.)
10. Describe the method of posting from the debit side of the cash book. (§ 66, ¶ 5.) From the credit side. (§ 66, ¶ 6.)
11. Give order of posting when the four books of original entry are used. (§ 67.)
12. What are business papers? (§ 68.)
13. Distinguish between a bill and an invoice. (§ 69.)
14. What is meant by buying or selling on account? (§ 69, ¶ 1.)
15. What is a receipt? (§ 70.) Define license. (§ 74.)
16. What is a fiscal period? (§ 76.) How much time may it cover?
17. What is an inventory? (§ 77.) What is meant by taking stock? (§ 77, ¶ 1.)
18. At what price should the merchandise inventory be taken?
19. Why is it necessary to make a Statement of the Business at the close of the fiscal period? (§ 80.)
20. What is the purpose of the Balance Sheet? (§ 81.)
21. What is the purpose of the Profit and Loss statement? (§ 82.)
22. Describe the Six Column Statement. (§ 83.)
23. Why is the ledger closed? (§ 84.) What accounts are closed?
24. What accounts will be open after the ledger is closed?
25. Describe the two methods of closing the ledger? (§ 84, ¶¶ 1 and 2.)

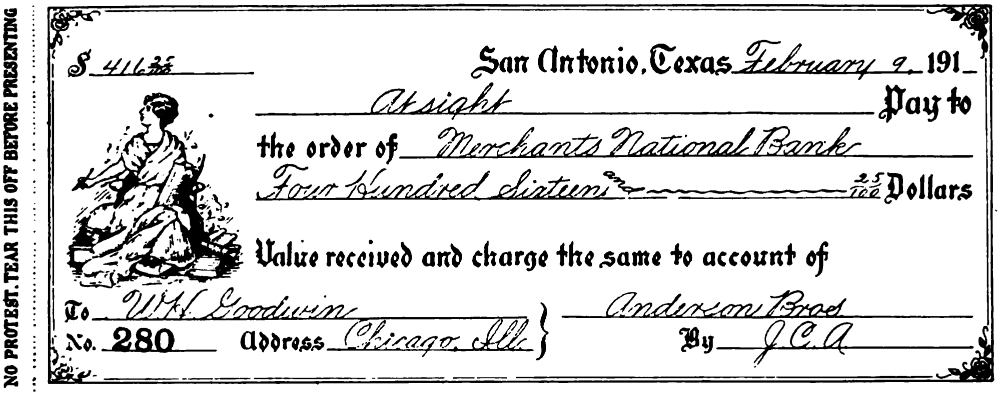
INTRODUCTORY SET (Continued).

FEBRUARY.

§ 86. **Introduction.** The work in this month is a continuation of the practice work of January. The same books of account are used, and the same accounts are kept, with the addition of Notes Receivable, Notes Payable and Furniture and Fixtures. Transactions with the bank and those involving the use of commercial paper are introduced and illustrated.

§ 87. **Commercial Paper** is that class of written contract obligations which are used in the place of and for money. Commercial Paper is divided into two classes: (*a*) paper that the bank will not accept as cash at its face value, which includes personal drafts and notes; (*b*) paper which the bank will accept as cash at its face value, which includes personal checks, bank drafts, cashier's checks, express, bank and postal money orders.

§ 88. **A Draft** is a written order from one party to another, directing him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. There are two kinds of drafts, known as *sight drafts* and *time drafts*.



NO PROTEST. TEAR THIS OFF BEFORE PRESENTING

$ 416$\frac{25}{100}$ San Antonio, Texas February 9, 191

At sight Pay to

the order of Merchants National Bank

Four Hundred Sixteen and $\frac{25}{100}$ Dollars

Value received and charge the same to account of

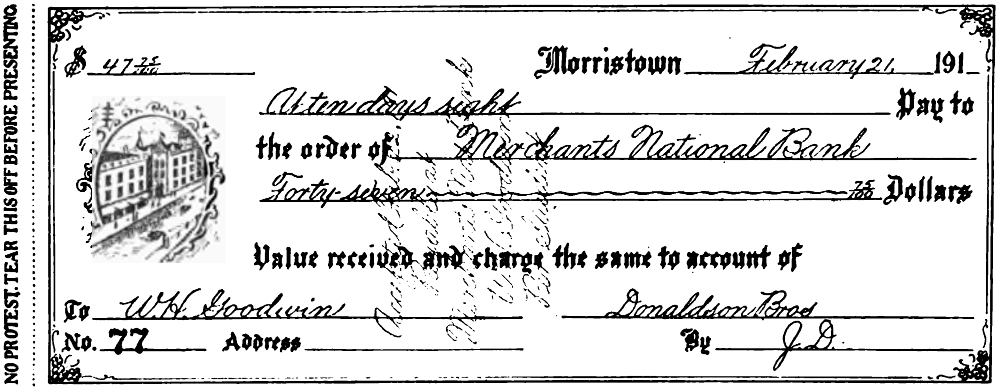
To W. H. Goodwin
No. 280 Address Chicago, Ill.

Anderson Bros
By J. C. A.

Illustration No. 31, Sight Draft.

§ 89. **A Sight Draft** indicates that the amount owed the drawer is past due, and he wishes it paid upon presentation. If a sight draft is not paid upon presentation, the drawer should be notified immediately by the holder. See Illustration No. 31.

§ 90. **A Time Draft** indicates that the amount owed the drawer is not due or that he wishes to allow the drawee additional time in which to make payment. They are usually drawn payable a designated number of days after sight or after date. The drawee accepts a time draft by writing across the face with red or black ink "Accepted," the date, his name and, if desired, the bank at which it is payable. If the drawee does not accept the draft upon presentation, the drawer and all previous endorsers should be notified immediately. See Illustration No. 32.



NO PROTEST. TEAR THIS OFF BEFORE PRESENTING

$ 47 75/100 Morristown February 21, 191_

At ten days sight Pay to

the order of Merchants National Bank

Forty-seven 75/100 Dollars

Value received and charge the same to account of

To W. H. Goodwin Donaldson Bros

No. 77 Address By J. D.

Illustration No. 32, Time Draft—Accepted.

¶ 1. *An Accepted Time Draft* is usually termed an "Acceptance." A. H. Miller's acceptance means a time draft drawn on A. H. Miller and accepted by him.

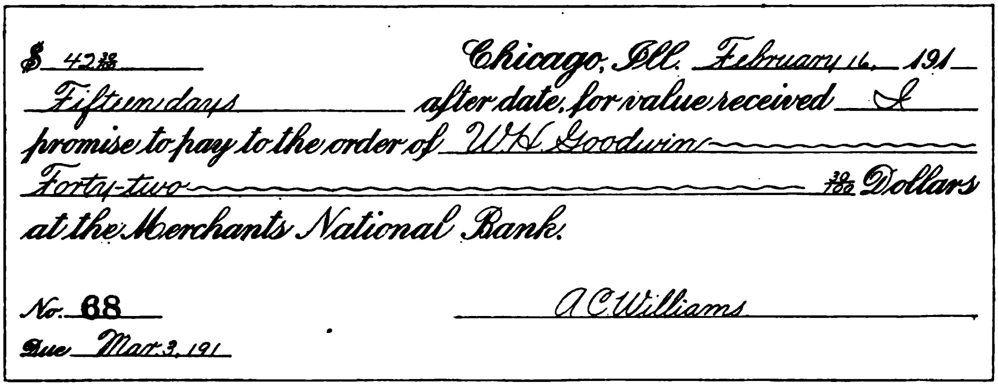
¶ 2. *No Protest.* The law requires that each person secondarily liable for the payment of a draft or other commercial paper, must be notified in case of non-payment. The holder can waive this by using the "No Protest" notice shown on the left-hand end of Illustrations Nos. 31 and 32.

§ 91. **Original Use of Drafts.** Drafts were originally used to avoid sending money to a distant place. A, in Chicago, owes B, in Louisville, a debt of $500.00; C, of Louisville, owes A, of Chicago, an equal amount. A writes an order (draft) on C, asking him to pay the amount to B, and sends the draft to B. B presents this to C, who pays it, retaining the draft as his receipt. With the numerous means now in use for transporting money with absolute safety, this use of drafts is about out of practice.

§ 92. **Present Use of Drafts.** Drafts are now used as a collecting medium only, in nearly all cases some bank or collection agency being the payee. In the above example, A would send his check to B, and expect C to pay his account in the same way. In case C did not do this, he (A) would draw a draft on him (C), in favor of some bank, either in Chicago or Louisville, and send it to the bank to collect. If A does not send his check, B would draw a draft on him in favor of some bank and send it to the bank for collection. See Illustrations Nos. 31 and 32.

§ 93. **A Note** is an unconditional written promise to pay a fixed amount of money at a stated time, and is signed by the person agreeing to pay it. A note has two original parties, the maker and the payee. The one who signs the note is the maker; the one in whose favor it is made, the payee. A note indicates that the maker is indebted to the payee, and has agreed to pay the amount stated, at the maturity of the note.

Notes are used in business as evidence of indebtedness, either as a loan or as an extension of time on some debt. Thus A, a merchant, sells B a quantity of goods to be paid for on the first of the following month. At this time B states he is not in a position to meet the obligation, but will give his note due in thirty days in payment of the amount. If B has a good credit, A can transfer the note to his banker, receiving the cash, less interest to maturity. See Illustration No. 33.



$ 42$\frac{30}{100}$ Chicago, Ill. February 16, 191

Fifteen days after date, for value received I

promise to pay to the order of W. H. Goodwin

Forty-two $\frac{30}{100}$ Dollars

at the Merchants National Bank.

No. 68 A. C. Williams

Due Mar. 3, 191

Illustration No. 33, Note.

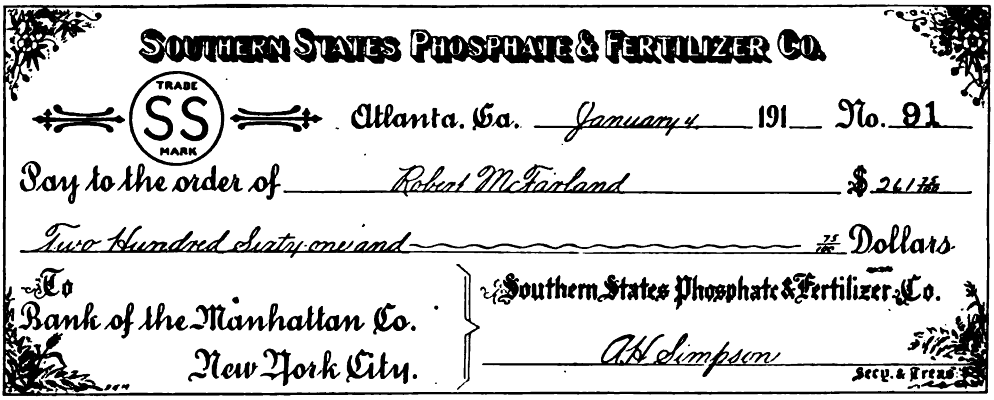
¶ 1. *The Face of a Note* is the amount stated in it. This amount is shown as its value on the books.

¶ 2. *The Maturity Value of a Note* is the amount to be collected at maturity. If a note reads "with interest after maturity," the face is the maturity value; if it reads "with interest from date," the maturity value is the face plus interest at the legal rate from date to maturity. When a note is discounted at the bank the interest (discount) is calculated on the maturity value.

¶ 3. *A Time Draft*, after it is accepted, is the same as a note because the acceptance is the written promise of the person who accepts it to pay the amount mentioned at a fixed time. See § 90, ¶ 1.

§ 94. **Commercial Paper Regarded as Cash.** As explained in § 37, cash is money or commercial paper that the bank will accept as money. Commercial paper of this class consists of personal checks, bank drafts, cashier's checks, express money orders, bank money orders, postal money orders, traveler's checks, etc. The most popular forms are Illustrated in Nos. 34, 35, 36 and 37, and explained in ¶¶ 1–6 following.

¶ 1. *Personal Checks* are explained in § 105. The form of check used may be that supplied by the bank or any special form desired by the depositor. Many firms have very elaborate checks containing information concerning their business. Some of them are prepared with special space for information concerning the amount paid; these are known as "Voucher Checks." Illustrations Nos. 34 and 42 show two forms of personal checks.



SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

TRADE SS MARK Atlanta, Ga. January 4 191_ No. 91

Pay to the order of Robert McFarland $261 75/100

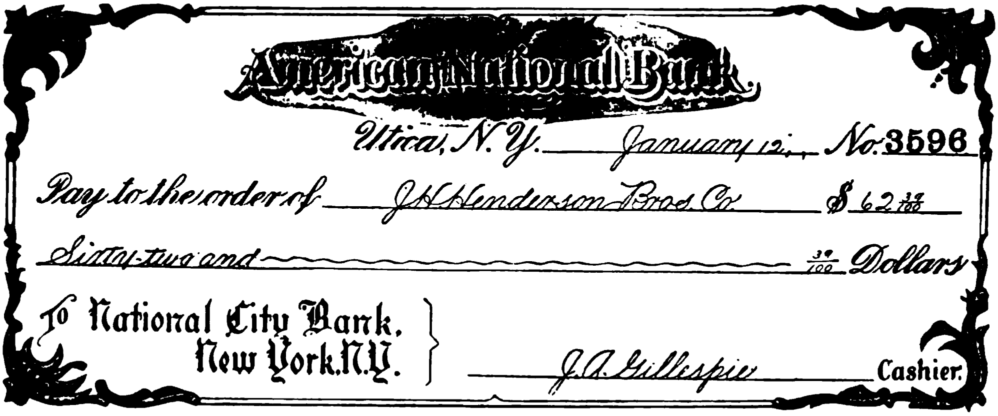
Two Hundred Sixty-one and 75/100 Dollars

To
Bank of the Manhattan Co.
New York City.

Southern States Phosphate & Fertilizer Co.
A H Simpson
Secy. & Treas.

Illustration No. 34, Personal Check.

¶ 2. *Bank Draft.* A bank draft is a check drawn by one bank on another, and is evidence that the bank drawing the draft has money on deposit with the bank on which it is drawn. This is sometimes called "Exchange," especially if drawn on a bank in New York, Chicago, St. Louis, or some other large city. Illustration No. 35 shows the form of a bank draft.



American National Bank.

Utica, N.Y. January 12, No. 3596

Pay to the order of J H Henderson Bros Co $62 39/100

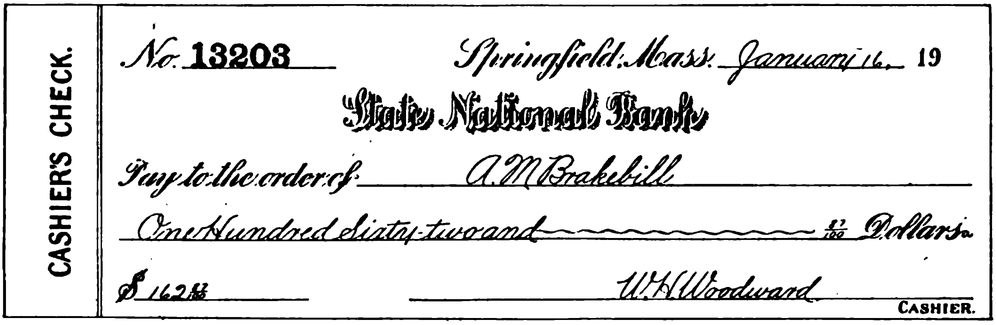
Sixty-two and 39/100 Dollars

To National City Bank,
New York, N.Y.

J.A. Gillespie Cashier.

Illustration No. 35, New York Draft.

¶ 3. *Cashier's Check.* A cashier's check is one drawn on the bank and signed by the cashier. They are used in payment of collections made for persons who are not customers or for paying obligations of the bank. Illustration No. 36 shows the form of a cashier's check.



CASHIER'S CHECK.

No. **13203** Springfield, Mass. January 16, 19

State National Bank

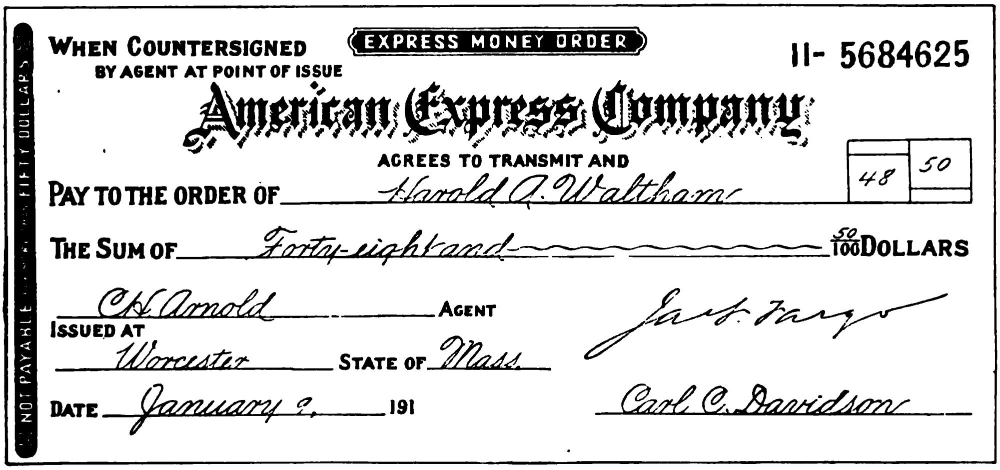
Pay to the order of A. M. Brakebill

One Hundred Sixty-two and 87/100 Dollars.

$162 87/100 W. H. Woodward CASHIER.

Illustration No. 36, Cashier's Check.

¶ 4. *Express Money Orders.* An express money order is a check issued by an express company. These are sold to persons who wish to send money to some person in another city. The leading express companies in the United States are the Adams, American, Wells Fargo and Southern. Illustration No. 37 shows a copy of an express money order issued by the American Express Company.



NOT PAYABLE [illegible] FIFTY DOLLARS

WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE

EXPRESS MONEY ORDER

II- 5684625

American Express Company

AGREES TO TRANSMIT AND

PAY TO THE ORDER OF Harold A. Waltham

48 | 50

THE SUM OF Forty-eight and 50/100 DOLLARS

C. H. Arnold AGENT

ISSUED AT Worcester STATE OF Mass.

DATE January 9, 191

Jas. F. Fargo

Carl C. Davidson

Illustration No. 37, Express Money Order.

¶ 5. *Bank Money Orders.* A bank money order is used for the same purpose as the express money order, and is issued by the Bankers' Association, in competition with the express companies. They are sold to those who wish to send money to some person at a distance. The draft is drawn on a central bank in New York City, by a bank, which is a member of the association, and payment is guaranteed by a trust fund.

¶ 6. *Postal Money Orders.* These are issued by the United States Post Office and are used for the same purpose as the express and bank money orders. The postmaster issues the order on the sender's written application, a special form being provided for this. Postal money orders may be cashed at any money order post office upon proper identification of the holder.

§ **95. Endorsements.** An endorsement is any writing on the back of a check, note or other commercial paper, placed there for the purpose of transferring the title, receipting for part payment, or for the accommodation of some one or more of the parties on the paper. The endorsement should be written about one inch from the left-hand end of the paper, as in Illustration No. 38.

The endorsing of commercial paper should be well understood, as it transfers the title and holds the endorser liable in case default is made in payment. The law allows the same protection to commercial paper as it does to money, and unless it is properly endorsed, if lost, the finder may dispose of it, in which case the loser can not recover it.

§ **96. Endorsement for Transfer.** There are a number of ways in which the holder of a commercial paper may write his name in order to transfer the title; all of these will be explained in the study of Commercial Law. The four most frequently used are "in blank," "in full," "for deposit" and "for collection."

John Jones

¶ 1. *"In Blank."* An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and it may be transferred by any subsequent holder, without further endorsement, but the endorsement of each holder is generally required, for identification.

Pay to the order of
C. W. King
John Jones

¶ 2. *"In Full."* This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, and signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time by the person who receives them, should be endorsed in full.

Pay to the order of
Union Bank
For deposit
W. H. Goodwin

¶ 3. *"For Deposit."* These words should be written above the name of the depositor on checks and other cash items to be deposited in the bank. This qualifies the endorsement and prevents their being used except for deposit. If desired, a rubber stamp with the words of the illustration at the left may be used for this purpose. If a stamp is used, the one who makes the deposit should indicate his name in connection with the endorsement.

For collection
W. H. Goodwin

¶ 4. *"For Collection."* Notes left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement. "Pay to the order of" and the name of the bank or collection agency is written above this endorsement. This prevents the paper being used as property of the bank or collection agency.

§ **97. Endorsement for Receipt of Part Payment.** When only part payment is made on commercial paper, the receipt for the same should be written on the back of the paper, and by the holder. The date and amount is all that is necessary, and under no circumstances should the holder write his name.

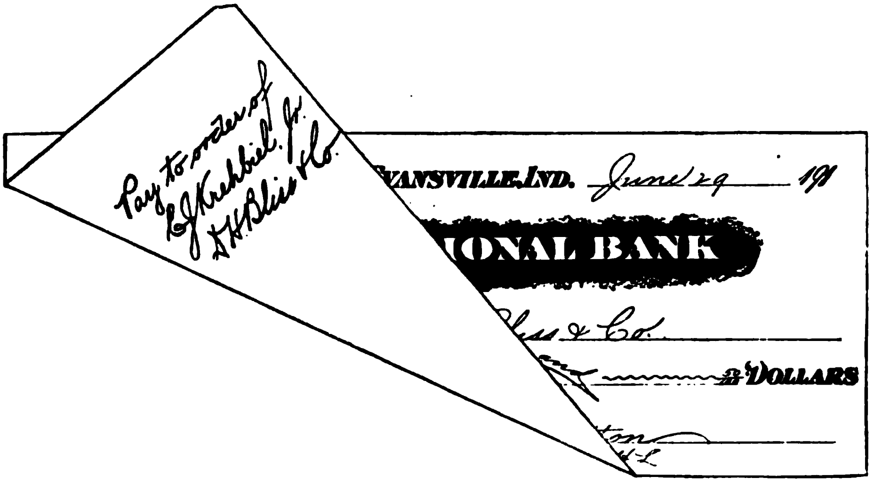


Illustration No. 38, Position of Endorsement.

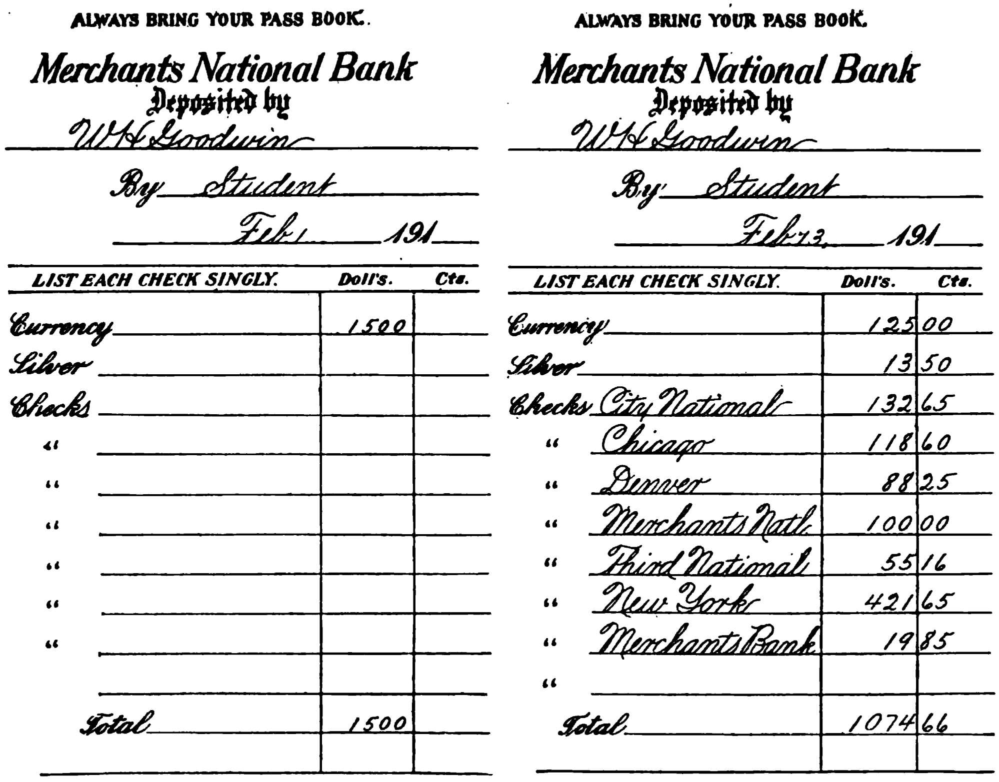
§ 98. **Endorsement for Accommodation.** This is effected by anyone signing his name on the back of a commercial paper for the purpose of guarantying the payment. An endorser for accommodation is as responsible to a third party for the payment of the paper as if he had transferred it for value.

§ 99. **Signing Commercial Paper.** Commercial paper should be signed by the party or parties responsible for its payment or by an authorized agent. An agent authorized to sign commercial paper should have a power of attorney as evidence of his authority. Each partner in a trading partnership can sign commercial paper and bind the firm by his action if the paper is issued in the regular conduct of the business. Commercial paper issued by a corporation is signed by an officer authorized to do so. Commercial paper issued by a partnership or corporation is signed with the firm name and the name of the person authorized to sign. No one should sign commercial paper for another without writing his own name below the name of the party responsible for the payment; the word "by" or "per" should be written to the left of his. name. If his name is omitted, he might be held for forgery in case the principal denies his authority to execute the paper. If the word "by" or "per" is omitted, he might be held jointly with the principal or maker.

§ 100. A **Bank** is a business organized for the purpose of dealing in cash and securities. The capital invested together with the money deposited by customers is loaned to those engaged in other business enterprises. A bank is essential for each business community. It offers many advantages, some of which are as follows: a safe place for the keeping of money, a convenient means of paying obligations without the handling of money, a place where money may be borrowed on good security, a means of collecting drafts and other evidences of obligations.

§ 101. **Opening an Account with the Bank.** An account is opened with the bank by depositing currency or cash items with the officer or clerk designated to receive the deposit. As a rule the bank will require satisfactory references as to the financial standing of the depositor. Cash deposited in the bank may be withdrawn at any time except under certain conditions which are agreed to by the depositor. It can be withdrawn only by a written order signed by the depositor. The depositor is required to sign his name on a signature card that the bank may verify his signature on the checks which he writes.

§ 102. **Deposit Ticket.** A deposit ticket is a printed form on which the depositor lists the currency and cash items to be deposited. These are supplied by the bank. Illustration No. 39 shows a popular form of the deposit ticket.



ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank
Deposited by
W H Goodwin
By Student
Feb 1 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	1500	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
Total	1500	

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank
Deposited by
W H Goodwin
By Student
Feb 23 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	125	00
Silver	13	50
Checks City National	132	65
" Chicago	118	60
" Denver	88	25
" Merchants Natl	100	00
" Third National	55	16
" New York	421	65
" Merchants Bank	19	85
"		
Total	1074	66

Illustration No. 39, Deposit Tickets.

§ 103. **Instructions for Making a Deposit.** The bank teller has many deposits to enter each day, and they should be so arranged as to facilitate his work. If the following instructions are observed, the teller can readily audit the deposit:

¶ 1. *Small Change is put up in Envelopes or Coin Wrappers* provided by the bank. These are usually arranged to contain fifty pennies, forty nickels, fifty dimes, forty quarter dollars or twenty half dollars. The name of the depositor is stamped or written on each package.

¶ 2. *Paper Money is Arranged in Regular Order*, the smaller denominations on top.

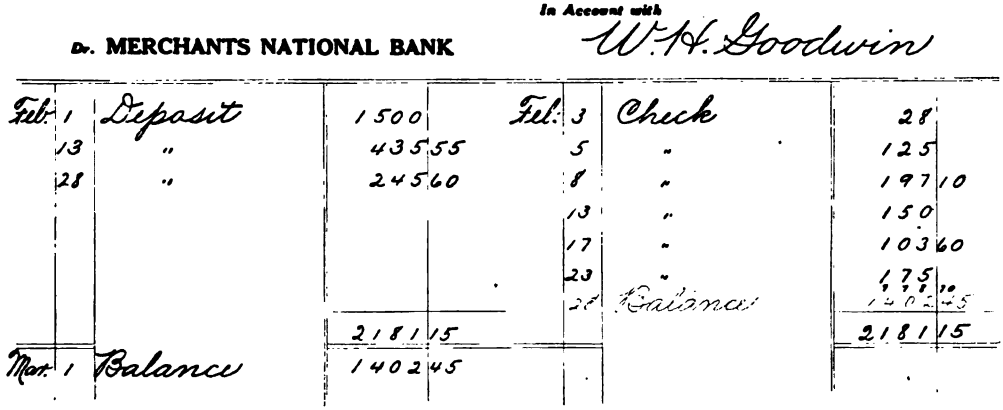
¶ 3. *Checks are Arranged* in the order in which they are listed on the deposit ticket; the names of the local banks and the addresses of out-of-town banks should be written at the left on the same line with the amount of the checks.

¶ 4. *Each Check must be Endorsed.* The correct endorsement is, "Pay to the order of," the name of the bank; "For deposit," the name of the firm, and the name of the person who made up the deposit. Thus, if checks are deposited in the Merchants National Bank for W. H. Goodwin, and L. A. Owen makes up the deposit, the endorsement is, "Pay to the order of Merchants National Bank for deposit,

W. H. Goodwin, by L. A. Owen." Endorsements are written on the left-hand end of the check. Hold the check so that it can be read, turn it over by bringing the top towards you, and write the endorsement across the back, about one inch from the left-hand end. (§ 96 and Illustration No. 38.)

¶ 5. *The Total of the Deposit* is entered at the bottom, on the line with "Total," printed on the ticket.

§ **104. Pass Book.** The object of this book is to provide a record of all money deposited and withdrawn. The amount of money deposited is entered in the pass book at the time the deposit is made; the amount of each canceled check (vouchers) is entered in it, usually once each month, and the checks returned to the depositor. Some banks render a monthly statement in which case the canceled vouchers are not entered in the pass book. Illustration No. 40 shows the method of keeping the pass book when the canceled vouchers are entered in it, and Illustration No. 41, the form of monthly statement showing the balance in the bank.



Dr. MERCHANTS NATIONAL BANK In Account with W. H. Goodwin

Feb.	1	Deposit	1500	Feb.	3	Check	28
	13	"	435 55		5	"	125
	28	"	245 60		8	"	197 10
					13	"	150
					17	"	103 60
					23	"	175
					28	Balance	1402 45
			2181 15				2181 15
Mar.	1	Balance	1402 45				

Illustration No. 40, Pass Book Balanced, February, Introductory Set.

Statement of

W. H. Goodwin

In account with

Merchants National Bank

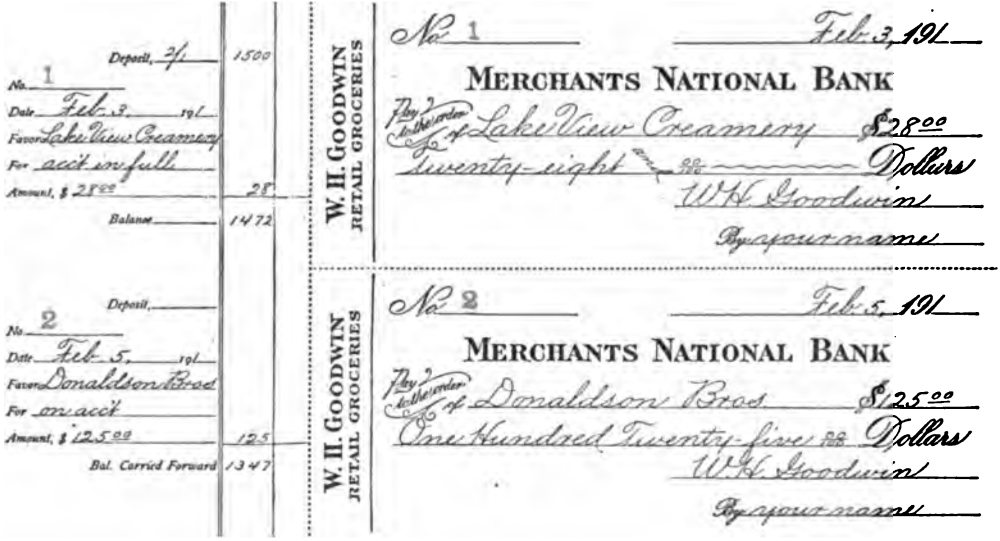
6 Vouchers Returned

PLEASE EXAMINE AT ONCE {IF NO ERRORS ARE REPORTED WITHIN TEN DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE

Feb. 1	Deposit	1500.00	
3	Check		28.00
5	"		125.00
8	"		197.10
13	Deposit	435.55	
	Check		150.00
17	"		103.60
23	"		175.00
28	Deposit	245.60	
	Balance		1402.45

Illustration No. 41, Bank Statement, February, Introductory Set.

§ **105. A Check** is a written order by a depositor on his bank, designating to whom he wishes the bank to pay a part or all the money he has on deposit. No particular form is necessary, but it is better to use the special form prepared by the bank. Checks are usually bound in book form; each is provided with a stub that a permanent record may be kept of all the facts mentioned on the check. See Illustration No. 42.



Deposit, 2/1 1500
No. 1
Date Feb. 3, 191
Favor Lake View Creamery
For acct in full
Amount, $ 28^{00} 28
Balance 1472

W. H. GOODWIN
RETAIL GROCERIES

No. 1 Feb. 3, 191

MERCHANTS NATIONAL BANK

Pay to the order of Lake View Creamery $\$28^{00}$
Twenty-eight $\frac{00}{100}$ Dollars
W. H. Goodwin
By your name

Deposit,
No. 2
Date Feb. 5, 191
Favor Donaldson Bros
For on acct
Amount, $ 125^{00} 125
Bal. Carried Forward 1347

W. H. GOODWIN
RETAIL GROCERIES

No. 2 Feb. 5, 191

MERCHANTS NATIONAL BANK

Pay to the order of Donaldson Bros $\$125^{00}$
One Hundred Twenty-five $\frac{00}{100}$ Dollars
W. H. Goodwin
By your name

Illustration No. 42, Check Book, Introductory Set.

§ **106. Instructions for Writing a Check.** The stub is a record of the check and should be filled out first; if this is omitted until after the check is written, it may be forgotten. A check should be written in the following order: the date; the number; the name of the person or firm to whom it is issued; the amount in writing; the amount in figures; the signature of the depositor.

¶ 1. *The date* is written at the top and should be the same as the date on which the check is written unless it is post-dated, in which case it is not payable until the date mentioned.

¶ 2. *Each Check and Stub is Numbered* consecutively, beginning with "1", and the number on the check is the same as that on the stub. The check and stub are numbered in order to facilitate the keeping of an accurate record with the bank.

¶ 3. *The Name of the Person or Firm* to whom the check is to be paid is written after "Pay to the order of." This means that the payee may transfer the check by endorsement, if desired. Checks to be cashed by the depositor himself may be made payable to the order of "Cash."

¶ 4. *The Amount* is written in both words and figures, each in a different position. The words and figures should be written so that it is not possible to increase the amount by inserting additional words or figures. Special machines which insert the amount in words or figures with indelible ink may be purchased, and should be used when available. If the words and figures are different, the words govern the amount.

¶ 5. *The Signature* must be identical with that signed by the depositor on the signature card when the account was opened with the bank. If the check is signed by one authorized to do so, the name of this person is written under that of the depositor, preceded by the word "per" or "by."

§ **107. Method of Keeping a Record of Transactions with the Bank.** Transactions with the bank are represented by the cash deposited, notes discounted and checks written. While the bank keeps a record of the transactions with its depositors, yet each depositor should also keep a record. A special book may be kept with the bank in which all deposits and checks are entered. However, the best results are obtained by keeping the account on the check stub. As a rule, the check book contains two or more checks to the page, each of which is provided with a stub. This stub is ruled with a money column at the right. The first deposit is entered in this column at the top of the first stub. When the first check is written, the amount is extended into this column and subtracted from the deposit. Each succeeding check is subtracted in the same manner, and each deposit added at the time it is made. Unless the depositor retains a carbon copy of the currency and checks deposited, they should be listed on the back of a stub which has been used. It is advisable to keep a copy of each deposit because it facilitates the work of the auditor. See Illustration No. 42.

A complete record of the transactions with the bank may be kept on the back of the stub, if desired. This method will be explained later.

§ **108. Reconciliation of the Bank Account.** When the pass book is balanced or monthly statement rendered, as explained in § 104, the depositor should verify the correctness of the bank balance. This is done by comparing each canceled check with the information on the stub which has the same number. If all the checks issued have been paid by the bank, the balance as shown on the stub of the depositor's check book will be the same as the balance in the pass book, or on the statement. If all the checks have not been paid by the bank, it will be necessary to deduct the amount of the unpaid checks from the balance in the pass book; the amount thus obtained should be the same as the balance shown by the check stub.

NOTES RECEIVABLE ACCOUNT.

§ **109. The Object of this Account** is to show the amount due the business as evidenced by written obligations, which are notes (§ 93) or acceptances (§ 90, ¶ 1). This refers to notes and acceptances received from customers as a credit on account.

Debit Notes Receivable:

¶ 1. For the face of each note or accepted draft on hand at the beginning of the business.

¶ 2. For the face of each note or acceptance received. (Unless a Notes Receivable book is kept, the time is written in the explanation column.)

¶ 3. For the face of each time draft drawn on a customer and accepted by him.

Credit Notes Receivable:

¶ 4. For the face of each note or acceptance (§ 90, ¶ 1) when it is paid in full. A partial payment is credited to the Notes Receivable account and indicated by letter, as explained in the note under § 39.

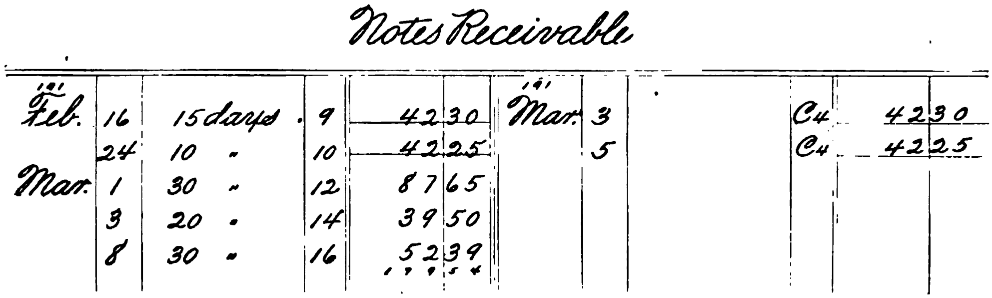
¶ 5. For the face of each note or accepted draft discounted.

¶ 6. For the face of each note or accepted draft transferred.

The debit side is the larger when not in balance.

¶ 7. *The Balance of this Account* shows the value of the notes or accepted drafts belonging to the business. It is shown as a current asset on the Balance Sheet.

¶ 8. *To Close the Notes Receivable Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. If the payment of any note balances the account at a certain point, it is ruled with a single red line; pencil footings are used to show that the totals on each side are equal. If it is necessary to transfer the balance to a new page, the balance is entered on the credit side with red ink, the account footed and ruled with single and double red lines, and the amount forwarded to the new page on the debit side with black ink.



Notes Receivable

191						191					
Feb.	16	15 days	9	42	30	Mar.	3		C4	42	30
	24	10 "	10	42	25		5		C4	42	25
Mar.	1	30 "	12	87	65						
	3	20 "	14	39	50						
	8	30 "	16	52	39						
				179	54						

Illustration No. 43, Notes Receivable Account for Exercise No. 39.

Exercises in Notes Receivable Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 39 is the same as Illustration No. 43. References are to § 109.

Exercise No. 39, Notes Receivable Account.

Feb. 16. Received a fifteen-day note for $42.30 (¶ 2).
24. Received a ten-day note for $42.25.
Mar. 1. Received a thirty-day note for $87.65.
3. Received a twenty-day note for $39.50; received check for $42.30 in payment of note due today (¶ 4).
5. Received check for $42.25 for note due today (¶ 4).
8. Received a thirty-day note for $52.39 (¶ 2).

Exercise No. 40, Notes Receivable Account.

Apr. 5. Received a sixty-day note for $129.62 (¶ 2).
May 6. Received a thirty-day note for $379.59.
12. Received a three-month note for $1,462.30.
June 1. Hall Bros. accepted our draft at ten days for $500.00 on account (¶ 3).
5. Received $379.59 for note due today (¶ 4).
10. Transferred note received April 5 (¶ 6).
11. Received $500.00 for Hall Bros.' draft (¶ 4).
20. Received a ninety-day note for $800.00.
25. Received $700.00 as part payment on note dated May 12 (¶4).

Exercise No. 41, Notes Receivable Account.

July 1. At the beginning of the business there were three notes on hand; one for $150.00, dated May 18, due in sixty days; one for $300.00, dated June 25, due in sixty days; and one for $175.00, dated June 29, due in 60 days (¶ 1).
16. Received a ninety-day note for $862.50.
17. Received $150.00 for note due today (¶ 4).
Aug. 9. Received a thirty-day note for $975.80.
18. Received a sixty-day note for $329.48.
20. C. A. Dow accepted our thirty-day draft for $650.00 (¶ 3).

(*Concluded on page 83.*)

(Exercise No. 41—Continued from page 82.)

Aug. 24. Received $300.00 in payment of note due.
Sept. 1. Received a sixty-day note for $119.98.
8. Received check for $975.80 in payment of note due today.
10. Received check for $175.00 in payment of note; transferred Dow's acceptance for $650.00 to D. C. Miller, on account (¶ 6).
25. Received sixty-day note for $250.00.
29. Received $862.50 in payment of note.
30. Transferred note for $119.98 to Day Bros., on account (¶ 6).

NOTES PAYABLE ACCOUNT.

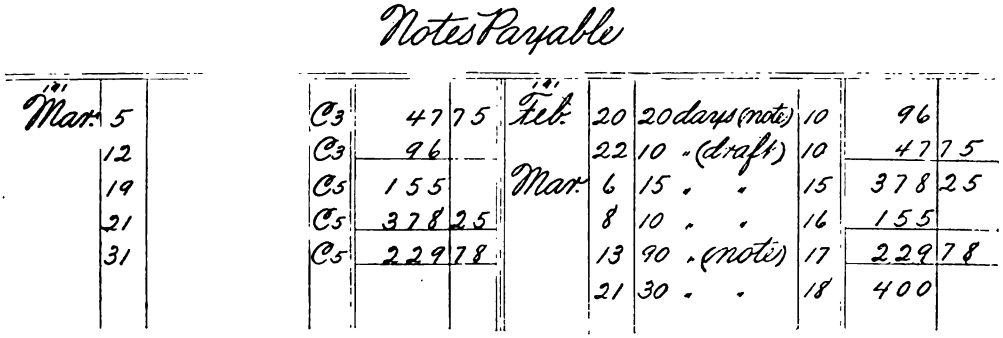
§ **110. The Object of this Account** is to show the amount owed by the business, as evidenced by written obligations, which are notes (§ 93) or accepted drafts (§ 90, ¶ 1). This account is the opposite of the Notes Receivable.

Debit Notes Payable:	*Credit Notes Payable:*
¶ 1. With the face of each note or accepted draft when paid in full by the business. A partial payment is debited to Notes Payable and indicated by letter as explained in the note under § 39.	¶ 2. For the face of each note owed at the beginning of the business. ¶ 3. For the face of each note signed by the business. ¶ 4. For the face of each time draft accepted. (If a Notes Payable book is not kept, the time of each note or draft should be written in the explanation column.)

The credit side is the larger when not in balance.

¶ 5. *The Balance of this Account* shows the amount the firm owes on notes and accepted drafts. It is shown as a current liability on the Balance Sheet.

¶ 6. *To Close the Notes Payable Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. If the payment of any note balances the account at a certain point, it is ruled with a single red line; pencil footings are used to show that the totals on each side are equal. If it is necessary to transfer the balance to a new page the difference is entered on the debit side with red ink, the account footed and ruled with single and double red lines, and the amount forwarded to the new page on the credit side with black ink.



Notes Payable

191						191					
Mar.	5		C3	47	75	Feb.	20	20 days (note)	10	96	
	12		C3	96			22	10 " (draft)	10	47	75
	19		C5	155		Mar.	6	15 " "	15	378	25
	21		C5	378	25		8	10 " "	16	155	
	31		C5	229	78		13	90 " (note)	17	229	78
							21	30 " "	18	400	

Illustration No. 44, Notes Payable Account for Exercise No. 42.

Exercises in Notes Payable Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 42 is the same as Illustration No. 44. References are to § 110.

Exercise No. 42, Notes Payable Account.

Feb. 20. Gave twenty-day note for $96.00, in full of account (¶ 3).
22. Accepted ten-day draft, $47.75, in full of account (¶ 4).
Mar. 5. Paid ten-day draft, $47.75 (¶ 1).
6. Accepted fifteen-day draft in full of account, $378.25 (¶ 4).
8. Accepted a ten-day draft, $155.00, in full of account.
12. Paid twenty-day note for $96.00 (¶ 1).
13. Gave ninety-day note for $229.78, in full of account.
19. Paid ten-day draft, $155.00.
21. Borrowed $400.00 from the bank on thirty-day note (¶ 3); paid fifteen-day draft, $378.25.
31. Prepaid ninety-day note for $229.78 (¶ 1).

Exercise No. 43, Notes Payable Account.

Oct. 1. Gave sixty-day note for $416.29 (¶ 3).
26. Gave thirty-day note for $321.82.
Nov. 11. Gave ninety-day note for $722.80.
25. Paid thirty-day note, $321.82 (¶ 1).
27. Accepted thirty-day draft for $500.00 (¶ 4).
30. Gave thirty-day note for $350.00.
Dec. 16. Paid sixty-day note for $416.29.
19. Gave sixty-day note for $379.62.
20. Paid $200.00 on note given Nov. 11.
21. Accepted ten-day draft for $50.00.
27. Paid thirty-day draft, $500.00.
30. Gave ninety-day note for $411.49.
31. Paid thirty-day note, $350.00.

Exercise No. 44, Notes Payable Account.

Jan. 2. At the beginning of the business we owed two notes, one dated December 24, due in thirty days, for $1,500.00; the other dated December 15, due in sixty days, $1,000.00 (¶ 2).
3. Paid thirty-day note for $1,500.00.
9. Gave sixty-day note for $276.45.
Feb. 1. Gave thirty-day note for $239.80.
14. Paid $1,000.00 note due today (¶ 1), by check for $500.00 and a new note for $500.00 due in sixty days, with interest (¶ 3). (The face of the old note is entered on the debit side, and the new note on the credit side. No record is made of the interest until it is paid.)
28. Gave thirty-day note for $715.29.
Mar. 5. Accepted sixty-day draft for $326.16.
12. Accepted ten-day draft for $584.79.
22. Paid ten-day draft, $584.79.
30. Gave ninety-day note for $298.64.
31. Paid thirty-day note for $715.29.

§ **111. Property Purchased for Use in the Business.** In every business it is necessary to purchase certain property which is not to be sold, but is to be used in conducting the business. This includes desks, safes, chairs, shelving, show cases, scales, horses, wagons, automobiles, machinery and other property that may be needed. There are usually three accounts kept with this kind of property. One of these accounts is illustrated in this set (§ 112); the other two are illustrated in the succeeding sets.

Property of this kind must of necessity decrease in value because of its use. The use of the property will to a certain extent determine the amount of the decrease in value. A typewriter which is in constant use will wear out much more quickly than desks, show cases, shelving, etc.

There are two methods of keeping accounts with property of this kind. One is to have the account show the present value of the property, and the other, to have the account show the cost value. The first method may be used where the amount invested in property of this kind is not large. The second method is better where a considerable amount is invested in this kind of property. The first method is used in this set, while the second method is used in the succeeding sets.

FURNITURE AND FIXTURES ACCOUNT.

§ **112. The Object of this Account,** as kept in this set, is to show the value of the property purchased for use in the office and storeroom, which includes desks, typewriters, filing cabinets, show cases, scales, etc. This property is not bought to be sold, but to be used in the business. The name of each article should be written in the explanation column in the ledger. Where a number of articles are in use, it is best to keep a permanent list in a book especially prepared for that purpose.

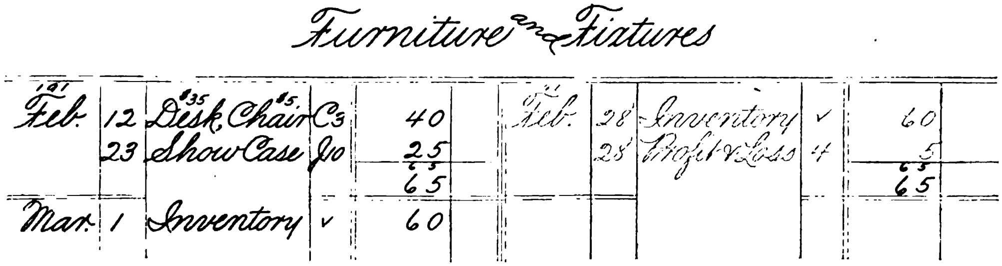
Debit Furniture and Fixtures:

¶ 1. For the present value of furniture and fixtures on hand at the beginning of the business.

¶ 2. For the cost of any property of this kind purchased.

Credit Furniture and Fixtures:

¶ 3. With the selling price of any property, the value of which was charged to this account.



Furniture and Fixtures

191 Feb.	12	\$35 Desk, \$5 Chair	C3	40	Feb.	28	Inventory	✓	60
	23	Show Case	J10	25		28	Profit & Loss	4	5
				65					65
Mar.	1	Inventory	✓	60					

Illustration No. 45, Furniture and Fixtures Account for Exercise No. 45.

¶ 4. *The Difference Between the Two Sides of this Account* shows the book value of the furniture and fixtures on hand. At the end of the fiscal period the present value of this property is obtained by an appraisal and the difference between the present value and the book value is charged to the Profit and Loss or Expense account as explained in ¶ 5. The book value, the depreciation, and the inventory value are shown on the Balance Sheet with the fixed assets.

¶ 5. *To Close the Furniture and Fixtures Account.* Enter the inventory (present value of the property), and the depreciation (difference between the inventory and the cost), on the credit side. Rule the account with single and double red lines and foot with black ink. Enter the inventory below the ruled lines on the debit side with black ink under date of the next business day following the closing. Transfer the depreciation to the debit side of the Profit and Loss or Expense account. If the account is closed direct, the amount of the inventory, the account to which the depreciation is transferred and the amount will appear in red ink; if closed by a journal entry, they will be written with black ink.

Exercises in Furniture and Fixtures Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 45 is the same as Illustration No. 45; close each account as shown in the illustration. References are to § 112.

Exercise No. 45, Furniture and Fixtures Account.

Feb. 12. Paid cash for desk, $35.00; chair, $5.00 (¶ 2).
23. Bought on account, one show case, $25.00 (¶ 2).
28. The Balance Sheet and Profit and Loss statements are to be made and the books closed. $5.00 deduction is made for depreciation in value (¶ 4).

Exercise No. 46, Furniture and Fixtures Account.

Jan. 1. Furniture and Fixtures on hand valued at $250.00 (¶ 1).
20. Bought 12 chairs for $14.00; bought a typewriter for $100.00.
Mar. 25. Paid for office partition, $36.25; paid for scales, $45.00 (¶ 2).
June 6. Sold desk (on hand January 1) for $26.50 (¶ 3).
30. The Balance Sheet and Profit and Loss statements are to be made, and the books closed. A deduction of $20.94 is made for depreciation in value of furniture and fixtures on hand (¶ 4).

Exercise No. 47, Furniture and Fixtures Account.

July 4. Bought a safe for $150.00 (¶ 2); bought standing desk for $25.00.
Aug. 11. Bought stool for $5.00; bought scales for $40.00.
Sept. 28. Bought six chairs for $9.00; bought filing cases, $100.00.
Oct. 19. Bought typewriter for $100.00; bought three trucks, $25.00.
Nov. 26. Sold one section of filing cases for $16.50 (¶ 3).
Dec. 9. Bought show case, $35.00.
11. Bought two counters and three tables for storeroom, $42.50 (¶ 2).
31. At the time the Balance Sheet is made, a deduction of $25.75 is made for depreciation in value (¶ 4).

QUESTIONS.

1. Define commercial paper. (§ 87.)
2. What is a draft? (§ 88.) A sight draft? (§ 89.) A time draft? (§ 90.)
3. What is a note? (§ 93.) What is the maturity value of a note? (§ 93, ¶ 2.)
4. Name the kinds of commercial paper that are regarded as cash. (§ 94.)
5. Define endorsements. (§ 95.) Name four endorsements for transfer. (§ 96.)
6. How and by whom should a commercial paper be signed? (§ 99.)
7. What is a bank? (§ 100.) A deposit ticket? (§ 102.) A pass book? (§ 104.)
8. Define a check. (§ 105.) Describe the method of writing it. (§ 106.)
9. Describe the method of keeping an account with the bank. (§ 107.)
10. Describe the method of reconciling the bank account. (§ 108.)
11. What is the object of the Notes Receivable account? (§ 109.)
12. What is the object of the Notes Payable account? (§ 110.)
13. For what purpose may property be purchased by the business? (§ 111.)
14. What is the object of the Furniture and Fixtures account? (§ 112.)
15. Give two debits and one credit to the Furniture and Fixtures account.

INTRODUCTORY SET (Continued).

MARCH.

§ **113. Introduction.** The work of this month is a continuance of the practice work of February. The same books of account are used, and the same accounts are kept with the addition of Land, Buildings, Building Expense and Revenue, and Interest.

REAL ESTATE.

§ **114. Real Estate** is a technical term that is applied to immovable property which consists of land, buildings and other improvements which make the land valuable. Real estate may be purchased by a business (a) for a home, or (b) for speculation. When it is purchased as a speculation a separate account should be opened for each property owned.

The purchase price fixes the value of the real estate, and this value does not change except in the case of additional improvements. The value should not be increased by means of an inventory or appraisal for no profit can be realized until it is sold. A distinction should be made between the land and the buildings, because the buildings decrease in value owing to age and use, while the land does not. On account of this distinction their value should be separated at the time of purchase. Accountants recommend that separate accounts be kept with land and buildings. If only one account is kept, their separate value should be indicated by the use of the explanation column. In either case an account termed Building Expense and Revenue should be kept to record all expenses incident to the upkeep of the buildings, and income which may be derived from the rental of any portion of the building.

If the building is to be constructed on land purchased for this purpose, the purchase price of the land together with any additional cost of grading and preparing it for the building, is charged to the Land account. Payments in connection with the construction of the building are charged to a Building Contract account. When the building is completed, the balance of this account is closed into a Buildings account. This is carried on the books as the value of the building, and the depreciation is based on it.

¶ 1. *Depreciation on Buildings.* Depreciation ~~refers to a~~ decrease in value owing to age and use. In the case of buildings the amount of this depreciation depends on the material of which the buildings are constructed. Buildings constructed of concrete will not depreciate as rapidly as those constructed of less substantial material. At the end of each fiscal period a charge should be made for depreciation on the buildings, the amount of which has been determined by the management of the business. The subject of depreciation is thoroughly discussed by a number of leading authorities on accounting, including Montgomery, Dickinson, Hatfield, Salliers and Walton. For a further discussion of the subject the student is referred to these authors.

LAND ACCOUNT.

§ **115. The Object of this Account** is to show the cost of land purchased by the business. When the real estate is purchased, a separate value is placed on the land and buildings.

The following debits and credits apply to the transactions with land purchased as a home for the business.

Debit the Land Account:	*Credit the Land Account:*
¶ 1. For the cost value of land on hand at the beginning of the business. ¶ 2. For the cost of land purchased. ¶ 3. For the expense required to secure title to the real estate. ¶ 4. For the cost of sidewalk, grading, and other improvements applicable to land.	¶ 5. For the cost price of land sold or subdivided.*

¶ 6. *The Balance of the Land Account* shows the cost value of the land owned by the business. It represents one of the fixed investments and is shown as a fixed asset on the Balance Sheet. It is usually shown under the title of Real Estate with the land and buildings value shown separate.

¶ 7. *To Close the Land Account.* This account is not closed until all the land has been sold unless it is necessary to carry it forward to a new page. In the first case it is ruled with single and double red lines and footed with black ink. Double lines only may be used when there is but one amount on each side. In the second case, the balance is entered on the credit side with red ink, the account ruled with single and double red lines, and the balance carried forward to a new page; this transfer may be made by a journal entry, in which case the balance would be written with black ink.

Land

Mar.	1		C5	500	Mar	30		C.6	500

Illustration No. 46, Land Account for Exercise No. 48.

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*NOTE. When land is subdivided and separate accounts kept with the subdivisions, the cost of each of these is based on the original cost. To illustrate: if the original cost of a piece of land was $5,000.00, and it is to be divided into five subdivisions, the cost of each subdivision would be shown as $1,000.00.

In no case should land be made to increase in value on account of this subdivision. No profit can arise until the land is sold. When sold at a profit or loss, this is shown by a special Profit on Land, or Loss on Land account.

BUILDINGS ACCOUNT.

§ **116. The Object of this Account** is to show the cost of the buildings on land owned by the business. This value is fixed at the time the real estate is purchased. The cost includes the purchase price, and any amount paid for improving, but not for keeping the buildings in repair. If a new roof of the same material is put on a building this does not increase the value of the building because it was needed in order that the building could be used. If the original roof was made of wood, and a more expensive material is used for the new roof, this increases the value of the property, and the difference between the cost of the two kinds of material should be charged to the Buildings account.

Debit the Buildings Account:

¶ 1. For the cost value of buildings on land owned at the beginning of the business.

¶ 2. For the cost of buildings on land purchased, or new buildings erected.

¶ 3. For the proportionate part of the expense required for securing title, unless this is all charged to the Land account, § 115, ¶ 3.

¶ 4. For any improvements applicable to the buildings that increase their value.

Credit the Buildings Account:

¶ 5. For the cost price of property sold.

¶ 6. For any amounts received from the insurance company in payment for buildings destroyed.

¶ 7. * *The Balance of the Buildings Account* shows the cost value of the buildings owned by the business. It represents one of the fixed investments and is shown as a fixed asset on the Balance Sheet. It is usually shown under the title of Real Estate with the land and buildings value shown separately.

¶ 8. *To Close the Buildings Account.* This account is not closed until the buildings represented by the account have been sold, unless it is desired to carry it forward to a new page. In the first case, it is ruled with single and double red lines, and footed with black ink; double lines only may be used when there is but one amount on each side. (See Illustration No. 47.) In the second case, the balance is entered on the credit side with red ink, the account ruled and footed, and the balance carried forward to a new page; this transfer may be made by a journal entry, in which case the balance would be written with black ink.

Buildings

Mar.	1		C5	500	Mar	30		C.6	500

Illustration No. 47, Buildings Account for Exercise No. 48.

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* NOTE. The value of the building as shown by this account is not the real cost to the business after a reserve has been set up for depreciation (§117) but is the difference between the cost and the amount charged off on account of use and decrease in value due to age. For this reason, the amount of the reserve is deducted from the cost of the building to show the present value; the cost, the reserve, and the present value are shown on the Balance Sheet.

BUILDING EXPENSE AND REVENUE ACCOUNT.

§ 117. **The Object of this Account** is to show the cost of maintaining the buildings and the income from rent. When separate accounts are kept with each piece of property owned, an Expense and Revenue account should be kept with each.

Debit the Building Exp. and Rev. Acct.

¶ 1. For amounts paid for maintaining the buildings; such as, painting, papering, roofing, reflooring, etc.

¶ 2. For the cost of insurance on buildings.

¶ 3. For the amount paid for taxes.

¶ 4. For depreciation on buildings. (At the same time credit the ~~Reserve for Depreciation~~ of Buildings account. § 27.)

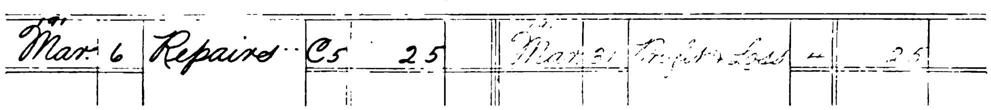
Credit the Building Exp. and Rev. Acct.

¶ 5. For amounts received in payment for rent.

¶ 6. *The Difference Between the Two Sides of this Account* shows the cost of the use of the buildings to the business. It is shown as an operating expense on the Profit and Loss statement.

¶ 7. *To Close the Building Expense and Revenue Account.* This account is closed when the ledger is closed, or when it is necessary to forward it to a new page. The balance is entered on the smaller side, the account ruled with single and double red lines, and footed with black ink. The balance is then transferred to the account into which it is closed, or to the new page. If closed direct, the balance is entered with red ink as in Illustration No. 48. If closed by a journal entry, the balance is written with black ink.

NOTE. When real estate is purchased for speculation, the Expense and Revenue account may show an income and not an operating cost. In this case it would show a credit balance, and be listed among the profits instead of the operating costs.



Building Expense and Revenue

Mar.	6	Repairs	C5	25	Mar	31	Profit & Loss	4	25

Illustration No. 48, Building Expense and Revenue Account for Exercise No. 48.

Exercises in Accounts with Real Estate. Prepare on ledger paper an account with Land, Buildings, and Building Expense and Revenue for each of these three exercises. Exercise No. 48 is the same as Illustrations Nos. 46, 47 and 48. Accounts that balance are to be ruled as shown in the illustrations.

Exercise No. 48, Land, Buildings, and Building Expense and Revenue Accounts.

Mar. 1. Paid $1,000.00 for storehouse and lot; value of land, $500.00; value of building, $500.00 (§ 115, ¶ 2, and § 116, ¶ 2).
6. Paid $25.00 for repairs on building (§ 117, ¶ 1).
31. Sold the property for $1,000.00 (§ 115, ¶ 5, and § 116, ¶ 5).

Close the accounts as shown in Illustrations Nos. 46, 47 and 48.

Exercise No. 49, Land, Buildings, and Building Expense and Revenue Accounts.

Aug. 1. At the beginning of the business, owned real estate valued at $3,500.00; land, $2,000.00; building, $1,500.00 (§ 115, ¶ 1 and § 116, ¶1.)
19. Paid for building new warehouse, per contract, $1,000.00 (§ 116, ¶2).
20. Paid for new roof, $150.00 (§ 117, ¶ 1).
31. Paid for insurance on building, $40.00(§ 117, ¶ 2.)
Sept. 1. Received $15.00 for rent of space on second floor (§ 117, ¶ 5.)
12. Paid for painting floor, $12.50.
19. Paid for installing elevator, $800.00 (§ 116, ¶ 4).
20. Received $10.00 for rent of space on second floor.
Oct. 9. Paid for door, $9.75 (§ 117, ¶ 1).
28. Paid for sidewalk, $75.00 (§ 115, ¶ 4).
Nov. 1. Received $15.00 for rent of space on second floor.
Dec. 1. Received $15.00 for rent of space on second floor.

Close the Building Expense and Revenue account into the Profit and Loss account.

Exercise No. 50, Land, Buildings, and Building Expense and Revenue Accounts.

Jan. 1. Paid $3,000.00 for real estate, consisting of a storehouse and lot; value of land, $1,200.00; value of building, $1,800.00 (§ 115, ¶ 2, and § 116, ¶ 2).
1. Paid our attorney $25.00 for looking up the title.
Debit Land for $10.00 and Buildings for $15.00.
5. Paid $26.00 for repainting the outside of the building (§ 117, ¶ 1).
7. Paid $19.00 for insurance on building (§ 117, ¶ 2).
9. Paid $12.00 for new steps (§ 117, ¶ 1).
Feb. 1. Received $5.00 rent for storage space (§ 117, ¶ 5).
5. Paid $150.00 for new porch as per contract (§ 116, ¶ 4.)
Mar. 1. Received $5.00 for storage space.
5. Sold the vacant lot adjoining the one on which the building is located, for $900.00; estimated cost $600.00.
Credit Land for $600.00 and a special account called Profit on Land for $300.00.
6. Paid for repairing roof, $5.00 (§ 117, ¶ 1).
Apr. 1. Received $5.00 for storage space.
12. Paid for new floor, $8.50 (§ 117, ¶ 1).
May 1. Received $5.00 for storage space.
9. Paid $125.00 for a new sidewalk (§ 115, ¶ 4).
June 1. Received $5.00 for storage space.
6. Paid for repairing floor, $4.00
July 1. Received $5.00 for storage space.

Close the Profit on Land account and Building Expense and Revenue account into the Profit and Loss account.

INTEREST.

§ **118. Interest** is the premium paid or received for the use of money. To illustrate: A borrowed $100.00 from B on twelve months' time, and at the end of the year paid $106.00, the principal and the interest. The $6.00 is interest, because it is the premium paid for the use of the money.

¶ 1. *Discount.* Discount is interest paid or collected in advance. If, when A, in the illustration above, borrowed the money from B, he had received only $94.00, and agreed to pay $100.00 at the end of the twelve months, the $6.00 would have been interest, because it was the premium paid for the use of the money. It is customary with banks to collect the interest in advance. This can be done by deducting it from the face of the paper, and crediting the depositor with the proceeds, or requiring the depositor to give his check for the interest and credit him with the face of the paper. To illustrate: A borrowed $500.00 from his bank, giving his note payable in ninety days from date, *as evidence of the obligation.* The bank charges him eight per cent interest. When he presents his note for credit, he will either give the bank his check for $10.00 and receive credit for $500.00, or receive credit for only $490.00. In either case the $10.00 is regarded as interest. Interest paid in advance may be termed "Discount," but it is better to consider all amounts paid for the use of money as "Interest," whether the amounts are paid at the time the debt is created or at the time it is paid.

Some authors distinguish between interest paid in advance and interest paid at maturity by designating the former as "discount," and the latter as "interest," but it is considered the better practice to treat all premiums paid for the use of money as interest, and let the Interest account show the results of these transactions. The better practice is followed in the discussion of interest in this text.

¶ 2. *Legal Rate.* To prevent unreasonable charges for the use of money, the various states have enacted laws fixing the rate that may be collected; this is termed the legal rate. Some states provide that a higher rate may be collected if mentioned in the contract. This is termed the contract rate. Both the legal and the contract rate are based on a fixed charge for one year; thus 6% indicates that $6.00 may be collected for each $100.00 for one year.

¶ 3. *Time.* The time is the number of days, months or years for which interest is to be calculated. In the case of a note the time is stated. A note dated March 10, due in 90 days, would be due June 8. The same note if payable in three months would be due June 10.

¶ 4. *Method of Calculating Interest.* A business year is regarded as 360 days—12 months, 30 days in each month. Since 6% is the legal rate in the majority of states, and it is an aliquot part of 60, there are many rules for calculating interest based on this. One of the simplest methods, especially where the time is less than 100 days, is as follows: Multiply the principal with the decimal place moved three places to the left by the result obtained by dividing the number of days by six. The result is the interest at 6%.

To illustrate: Calculate the interest on $942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by (48 divided by 6) 8. The result is 754,200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, $7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been $7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not 6%, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate, and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on $368.95 for 48 days, at 8%; $368.95 with the decimal point moved three places to the left is 3.6895. 48÷6=8; .36895×8=2.95160 (interest at 6%). 2.95160÷6=.49193 (interest at 1%) .49193×8=3.93544 or $3.94, interest on $368.95 for 48 days, at 8%.

INTEREST ACCOUNT.

§ 119. **The Object of this Account** is to show the amount paid and received for interest, whether these amounts are paid and received at the time the debt is created or at the time it is paid.

Debit the Interest Account:

¶ 1. For all amounts paid by us as interest at the time the obligation is due.

¶ 2. For all amounts paid by us as interest when paid at the time the loan is made (in advance.) This includes accumulated interest on interest-bearing notes accepted by us.

¶ 3. For all amounts deducted from notes we discount (transfer to others), which is the difference between the maturity value of the note and the amount we receive.

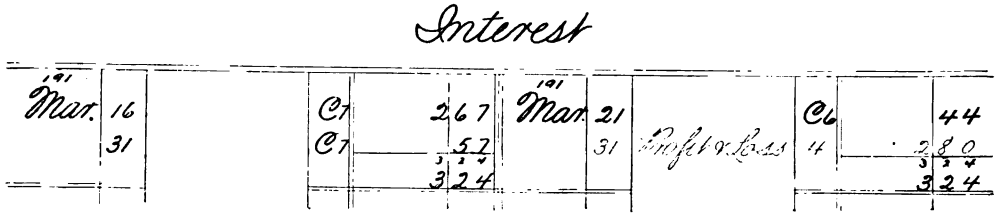
Credit the Interest Account:

¶ 4. For all amounts paid to us as interest when paid at the maturity of the obligation.

¶ 5. For all amounts paid to us as interest when paid in advance. This includes accumulated interest on interest-bearing notes transferred by us.

¶ 6. For all amounts deducted for prepaying notes which we owe, or allowed us on notes we purchase, which is the difference between the maturity value of the note and the amount we pay, or for which we give credit.

The above outline of debits and credits of the Interest account applies to general business transactions, and does not include special accounts made necessary on long time mortgages, bonds, etc.



Interest

191 Mar.	16		C7	2	67	191 Mar.	21		C6		44
	31		C7		57		31	Profit & Loss	4	2	80
				3	24					3	24
				3	24					3	24

Illustration No. 49, Interest Account for Exercise No. 51.

¶ 7. *The Difference Between the Two Sides of the Interest Account* shows a profit or loss—a loss if the debit side is the larger, and a profit if the credit side is the larger. It is shown as an income or deduction from income on the Profit and Loss statement. If desired, the credit side may be shown as an income, and the debit side as a deduction from income.

¶ 8. *To Close the Interest Account.* This account is closed when the ledger is closed, or when it is necessary to forward it to a new page. The balance is entered on the smaller side, the account ruled with single and double red lines, and footed with black ink. The balance is then transferred to the account into which it is closed, or to the new page. If closed direct, the balance is entered with red ink as in Illustration No. 49; if closed by a journal entry, the balance is written with black ink.

¶ 9. *Accrued Interest.*) At the close of the fiscal period there may be interest due the ~~business on~~ notes which are not due, or accounts that are past due. In the same way the business may owe interest on notes that are not yet due. The former is treated as an accrued asset, and the latter, as an accrued liability.

¶ 10. *Interest Paid in Advance.* At the close of the fiscal period there may be interest paid in advance on account of paper discounted at the bank, but not yet due. In the same way the business may have purchased paper and deducted the discount at the time of the purchase. The former is treated as a deferred charge to income or to operations, and the latter as a deferred credit to income.

Exercises in Interest Account. Prepare on ledger paper an Interest account for each of these exercises. Exercise No. 51 is the same as Illustration No. 49. References are to § 119.

Exercise No. 51, Interest Account.

Mar. 16. Borrowed $400.00 from the bank on my note at 30 days. Gave them a check for $2.67, in payment for interest at 8% (¶ 2).
21. Received check from P. A. Banesforth for $88.09, in payment for note, $87.65, and interest on the same, 44 cents (¶ 4).
31. Gave the bank a check in payment of note due Dick, McMillan & Co., $229.78, and interest on same to date, 57 cents (¶ 1).
Close the balance of this account into the Profit and Loss account as shown in Illustration No. 49.

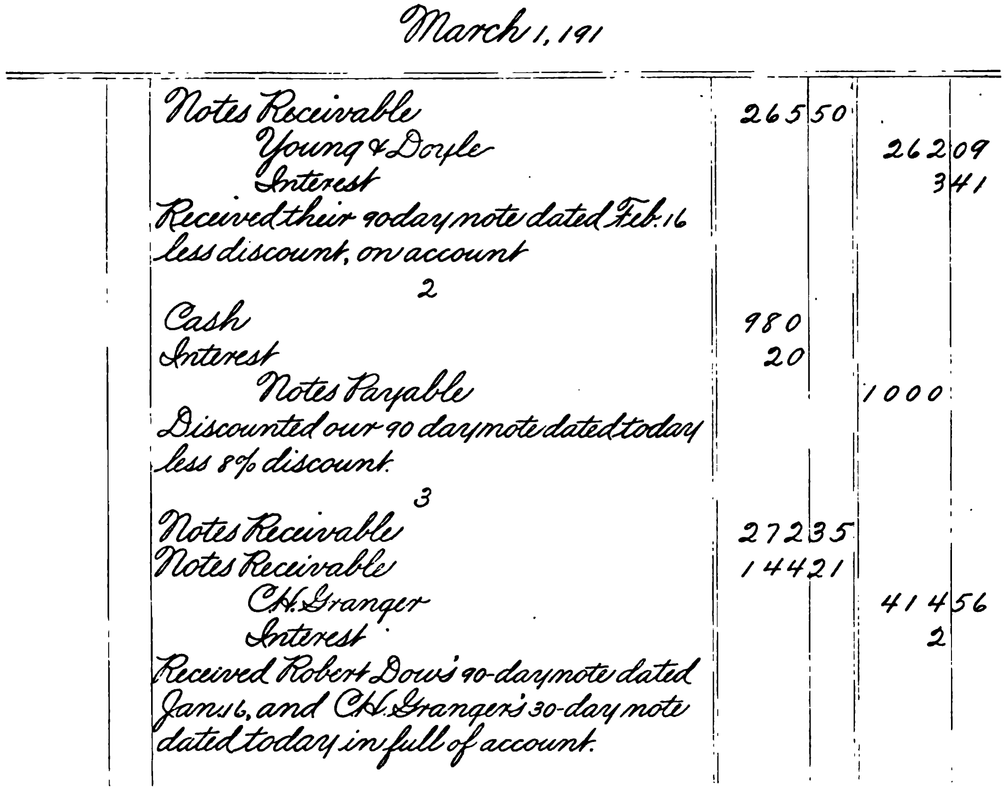
Exercise No. 52, Interest Account.

Apr. 1. Gave the bank check for $7.88, interest on discounted note (¶ 3).
27. Prepaid our note and deducted $2.63, interest to maturity (¶ 6).
May 16. Gave the bank a check for $7.50, interest on note renewed (¶ 1).
27. Robert Clark prepays his note of $200.00 by check for $197.50 (¶ 3).
Discounted Anderson Bros.' note for $400.00 at the bank, receiving credit for $393.67, the net proceeds (§ 3).
June 5. Prepaid our note of $500.00 by check for $482.90 (¶ 6).
30. Paid $4.50, interest on note due today (¶ 1).
Close the balance of this account into the Profit and Loss account.

Exercise No. 53, Interest Account.

July 17. Gave the bank a check for $10.00, to pay discount on note (¶ 2).
27. Received check from Davis Bros. for $287.65, in payment for balance due, $283.27, and the interest (¶ 4).
31. Received $6.00, interest on note renewed by a customer (¶ 5).
Aug. 17. Gave the bank a check for $20.00, to pay interest on note renewed (¶ 2).
27. Gave Smith & Jones a check for $726.40, in payment of account due them, $718.65, and interest (¶ 1).
Sept. 9. Received $5.60 from A. B. Day, interest on note he owes (¶ 4).
30. Received $16.65 from D. L. Morris, interest due us (¶ 4).
Oct. 27. Discounted M. B. Jacobs' note for $552.65 at the bank, and received credit for the proceeds, $549.27 (¶ 3).
Nov. 6. Gave W. H. Davis a check for $206.50, in payment of $200.00 note due today, and interest on the same (¶ 1).
Dec. 9. Received check from A. H. Bowers for $22.50, interest due us (¶ 4).
28. Borrowed $2,000.00 at the bank, and received credit for the proceeds, $1,960.00 (¶ 3).
Close the balance of this account into the Profit and Loss account.

§ 120. Compound Journal Entries. A transaction may affect more than two accounts; that is, two kinds of property may be purchased, and only one given in exchange for it, or one kind of property purchased and two or more kinds given in exchange for it. This same principle applies with services. Thus, a journal entry may be made up of one or more debits, and one or more credits. No matter how many debits and credits there may be, the total of the debits must equal the total of the credits, because the value of the property or services received always equals the value of the services or property given in exchange. Illustration No. 49a shows the form of compound journal entries.



March 1, 191

Notes Receivable	265	50		
Young & Doyle			262	09
Interest			3	41
Received their 90 day note dated Feb. 16				
less discount, on account				
2				
Cash	980			
Interest	20			
Notes Payable			1000	
Discounted our 90 day note dated today				
less 8% discount.				
3				
Notes Receivable	272	35		
Notes Receivable	144	21		
C.H. Granger			414	56
Interest			2	
Received Robert Dow's 90-day note dated				
Jan. 16, and C.H. Granger's 30-day note				
dated today in full of account.				

Illustration No. 49a, Journal Entries for 1, 2 and 3 in Exercise No. 54.

Exercise No. 54, Compound Journal Entries.

Make the required journal entries for the following transactions for March 1–12. Prove the interest calculations, using 6% unless the rate is stated. Consider 28 days in February. The entries in Illustration No. 49a are the same as the first three transactions.

Mar. 1. Received from Young & Doyle, on account, a ninety-day note, dated Feb. 16, for $265.50, less $3.41, interest to maturity. See first entry in Illustration No. 49a.

2. Borrowed $1,000.00 from the bank on our ninety-day note. Received credit for net proceeds, $980.00, face of note less $20.00, interest at 8%. See second entry in Illustration No. 49a.

(*Concluded on page 96.*)

(*Exercise No. 54—Continued from page 95.*)

3. C. H. Granger owes us $414.56. He settles in full by transferring Robert Dow's ninety-day note, dated Jan. 16, for $272.35, less $2.00 discount to maturity, and his thirty-day note for $144.21. See third entry in Illustration No. 49a.
4. We owe Donaldson Bros. $375.62. We settle in full by transferring L. D. Arnold's three-month note (Notes Receivable) for $250.00, dated Feb. 12, less $3.83, 8% discount to maturity, and our thirty-day note for $129.45. (Debit § 40; ¶¶ 4 and 2 and § 119, ¶ 3; credit, § 109, ¶ 6, and § 110, ¶ 3.)
5. We hold a four-month note for $375.00, dated Feb. 12. Discounted it at 8% and received $366.75 cash for the proceeds. (Debit, § 37, ¶ 2, and § 119, ¶ 3; credit, § 109, ¶ 5.)
6. We owe D. H. Addison $614.65. We make settlement as follows: Our note dated today, due in three months, for $200.00, W. H. Day's ninety-day note (Notes Receivable) for $300.00, dated February 28, less $4.20 discount, and our check for $118.85. (Debit, § 40, ¶¶ 2, 4 and 1, and § 119, ¶ 3; credit, § 110, ¶ 3, § 109, ¶ 6, and § 37, ¶ 3.)
8. Mays Bros. owe us $412.50. They settle this by transferring W. H. James' four-month note, $275.00, dated Jan. 3, with interest $5.50, from date, less discount, $2.62, and their sixty-day note for $134.62. (Debit, § 109, ¶ 2, twice, § 119, ¶ 2; credit, § 119, ¶ 6, and § 40, ¶ 5.)
9. Borrowed $1,000.00 from the bank on our note dated today, and due in four months. Gave them check for the interest, $20.00, and received credit for $1,000.00, the face of the note. (Debit, § 37, ¶ 2, and § 119, ¶ 2; credit, § 110, ¶ 3, and § 37, ¶ 3.)
10. We owe a note for $500.00, dated Jan. 9, and due in six months. The holder accepts our check for $489.92, which is the amount of the note, less $10.08, 6% interest for the remaining time. (Debit, § 110, ¶ 1; credit, § 37, ¶ 3, and § 119, ¶ 6.)
11. Received credit at the bank for $308.48, proceeds of Jones Bros. sixty-day acceptance (§ 90, ¶ 1) for $312.65.
12. Paid our note for $1,000.00, due at the bank today as follows: Our ninety-day note for $500.00 and our check for $510.00, balance due on the old note and $10.00 interest on the new note; rate of interest, 8%.

QUESTIONS.

1. Define real estate. (§ 114.)
2. What is meant by the depreciation on buildings? (§ 114, ¶ 1.)
3. How is depreciation provided for? (§ 114, ¶ 1.)
4. What is the object of the Land account? (§ 115.)
5. What is the object of the Buildings account? (§ 116.)
6. What is the object of the Building Expense and Revenue account? (§ 117.)
7. What is interest? (§ 118.)
8. What is meant by the legal rate? (§ 118, ¶ 2.)
9. What is meant by time, used in connection with interest? (§ 118, ¶ 3.)
10. Give one method of calculating interest. (§ 118, ¶ 4.)
11. What is the object of the Interest account? (§ 119.)
12. Give three debits and three credits to this account. (§ 119, ¶¶ 1–6.)
13. How is the Interest account shown on the Profit and Loss statement? (§ 119, ¶ 7.)
14. What is meant by accrued interest? (§ 119, ¶ 9.)
15. How is it treated at the close of the fiscal period? (§ 119, ¶ 9.)

Part Two—Partnership.

RETAIL HAY, GRAIN AND FEED BUSINESS, C. W. KEELAND & CO., PROPRIETORS.

APRIL AND MAY

§ 121. **Introduction.** The object of this set is to illustrate the application of the principles of accounting in a business conducted as a partnership, and to give further practice in the classification of accounts, and the recording of transactions. It presents accounts with partners, fixed assets and reserves, trading accounts, operating expenses, adjusting entries at the close of the fiscal period, special sales book, purchases book and cash book, special business forms and important general information.

A sufficient number of transactions is given to enable the student to appreciate the importance of accuracy, neatness, and a systematic record. He must understand not only the principles of accounting, but also their practical application, in order to make his services valuable to himself and others.

The Transactions to be Recorded are separate from the discussion of the principles (§§ 122–186), and may be represented by incoming vouchers (reproduced business papers) or a printed record. The final results are the same with either method.

PARTNERSHIP.

§ 122. **A Partnership** is the relation existing between two or more persons who have associated their time, labor, skill and capital in some business enterprise. The partners are the persons who have entered into the agreement to form a partnership.

§ 123. **The Object of Forming a Partnership** is the mutual benefit of all interested. The qualifications and natural ability of each person differ widely. One seldom possesses all the requirements for an ideal business man. For this reason, the association of two or more as partners is often very desirable. A shrewd buyer, a good salesman, and an efficient collector, will form a partnership that is sure to succeed. While the necessary capital for conducting the business is usually the chief incentive to the formation of a partnership, yet the natural ability of each partner should always be considered, especially if he is to take an active part in the business.

§ 124. **The Capital of a Partnership** is the amounts invested by the partners, either at the beginning or at subsequent times, and the accrued profits. This property does not belong to any one of the partners, either as a whole or a part, but belongs to all of them in common. If a dispute arises between the partners, and no agreement can be effected, it will have to be settled by a court of equity, as partners can not sue each other in a court of law.

§ 125. **The Articles of Copartnership** is the agreement or contract entered into by the partners at the beginning of the business, and must conform to the laws of the state in which it is made. This agreement should be in writing, and include the following: the *time* the partnership is to continue, the *name* under which the partners will do business, the *amount* invested by each, the *place* of business, the *nature* of the business, the *duties* of each partner, the amount to be *withdrawn* by each partner, the *division* of the profits, and such *special* conditions as may be deemed necessary. Each partner signs the articles of agreement and retains a copy.

¶ 1. *The Time.* Unless the specific time is mentioned, the court will assume that the partnership is to exist for one year, and it may be dissolved at the end of a year if any partner asks for a dissolution. For this reason, the number of years that the partnership is to exist should be stated.

¶ 2. *Name.* The partnership can do business under any name that the partners may select, provided this name does not interfere with the right of someone else. As a rule, the firm name contains the names of the partners who are most active in the business. The firm name of Jones, Smith & Co. does not necessarily mean that there are more parties interested in the business than Jones and Smith, except in a few states where the law does not permit the use of the word "Company" unless it is represented by one or more persons. The Union Manufacturing Co. might be selected as a name for the partnership, without mention of the name of any individual connected with it. Since each partner is interested in the success of the business, and his personal influence is worth something to the business, the names of the partners should be used to form the firm name.

¶ 3. *Amount Invested.* This refers to the amount invested at the beginning of the business, and any subsequent investments. The property invested is usually cash, but may be any other property, either tangible or intangible, that the partners agree to accept. Sometimes the personal influence or ability of one particular partner is accepted as his investment. A full description of the investment at the beginning should be outlined in the agreement that there may be no misunderstanding.

¶ 4. *Place of Business.* This refers to the city or town in which the partners are to do business, and may include the street and number of the building where the business is to be located.

¶ 5. *Nature of the Business.* It is better to describe in detail the nature of the business to be conducted, so that there will be no occasion for dispute.

¶ 6. *Duties.* A general outline of the duties to be performed by each partner should be specifically stated in the agreement. Each partner should be assigned the work best suited to his natural ability. Unless the duties of each partner are outlined in the agreement, there is almost sure to be trouble, because someone must of necessity assume leadership, and too often, the one who is least qualified to do this, feels that he is the one that should do it.

¶ 7. *Salaries.* As a rule, no partner is allowed to withdraw any part of his investment without the written consent of the other partners. If a partner is permitted to do so, this condition should be specifically stated. Each partner is usually allowed a salary for his services. The amount of this should be stated, so that there will be no dispute. This is a very important part of the agreement, and should be stated clearly.

¶ 8. *Division of the Profits.* Unless the agreement specifically states the proportionate part of the profit each partner is to receive, the court will assume that each partner is to have an equal part. For this reason, the agreement should state the proportionate part of the profit each partner is to receive.

¶ 9. *Special Conditions.* The partners may include in the agreement any conditions that are not contrary to law. As the agreement is each partner's understanding of the conditions under which the partnership is to exist, everything should be mentioned so that there will be no occasion for a misunderstanding. Each partner owes it to the business to see that his private affairs do not become involved. For this reason, each partner should agree not to become surety for anyone, or engage in any other business. Unless these features are included in the agreement, the business may be seriously affected by the private affairs of one partner. The law regards the interest of each partner as property which may be sold to pay his obligations, no matter what agreement he may have with the other partners regarding this.

§ 126. **Bookkeeping for a Partnership** does not differ from that for an individual unless the nature of the business is different. The investment account will be represented by two or more individual Capital accounts instead of one. The profits are shared by each partner according to the conditions mentioned in the agreement, hence the Profit and Loss account is closed into each partner's Capital account instead of only one Capital account. It is good policy to make a copy of the articles of agreement in the journal, or at least outline the important features. The object of this is to prevent disputes among partners. Since the books are open for the inspection of each partner, if an outline of the agreement appears in the journal, neither partner can claim that he did not understand the agreement.

§ 127. **Outline of Accounts.** An outline of the accounts kept in this set is given on page 100. This classification is based on that given in §§ 28-35. The balance sheet accounts are given first and the profit and loss accounts last.

ACCOUNTS WITH PARTNERS.

§ 128. **It is necessary** to keep an account with each partner to show his investments, withdrawals, and other transactions with him. The nature of the account is the same as that with an individual owner. It is the better practice to keep two accounts, one designated as the Partner's Capital account and the other the Partner's Personal account.

PARTNER'S CAPITAL ACCOUNT.

§ 129. **The Object of this Account** is to show the interest of the partner in the business. The total of all the Partner's Capital accounts represents the total investment in the business.

Debit the Partner's Capital Account:

¶ 1. For debts owed by him at the beginning of the business and assumed by the business.

¶ 2. For amounts withdrawn from the investment.

¶ 3. For the debit excess of his Personal account, if that account is closed into the Capital account.

¶ 4. For his share of the loss as shown by the debit excess of the Profit and Loss account at the close of the fiscal period.

Credit the Partner's Capital Account:

¶ 5. For his investment at the beginning of the business.

¶ 6. For all subsequent investments.

¶ 7. For the credit excess of his Personal account, if that account is closed into the Capital account.

¶ 8. For his share of the net profits as shown by the credit excess of the Profit and Loss account at the close of the fiscal period, except as explained in § 130, ¶ 6.

¶ 9. *The Balance of the Partner's Capital Account* shows the net amount invested, and at the end of the fiscal period, after the journal entry to close the

(*Concluded on page 101.*)

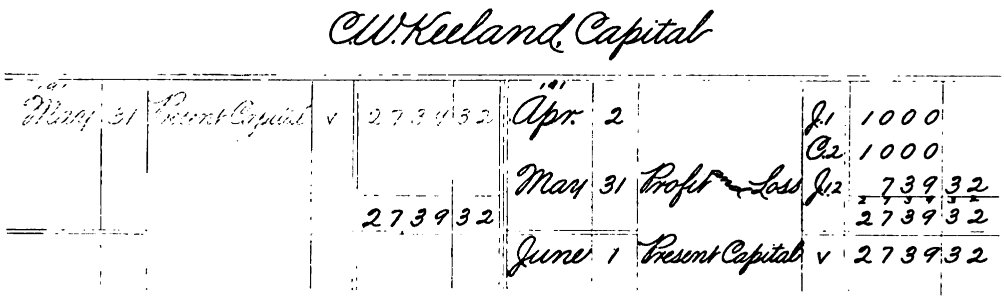
OUTLINE OF ACCOUNTS USED IN THE PARTNERSHIP SET.

- Current Assets
  - Cash.
  - Inventory
    - Merchandise in stock.
    - Merchandise on consignment.
  - Notes Receivable.
  - Accounts Receivable.
  - Accrued Assets.
- Fixed Assets
  - Office Equipment.
  - Store Fixtures.
  - Delivery Equipment.
- Deferred Charges to Operations.
- Current Liabilities
  - Notes Payable.
  - Accounts Payable.
  - Accrued Liabilities.
- Valuation
  - Reserve for Depreciation of Office Equipment.
  - Reserve for Depreciation of Store Fixtures.
  - Reserve for Depreciation of Delivery Equipment.
  - Reserve for Doubtful Accounts.
- Capital
  - C. W. Keeland Capital.
  - C. W. Keeland Personal.
  - A. D. Munson Capital.
  - A. D. Munson Personal.
  - C. A. Howell Capital.
  - C. A. Howell Personal.
- Trading
  - Inventory.
  - Purchases.
  - Freight In.
  - Purchases Discount.
  - Sales.
  - Sales Rebates and Allowances.
  - Sales Discount.
- Operating
  - General Administrative Expense.
  - Selling Expense.
  - Traveling Expense.
  - Insurance.
- Special Profit and Loss
  - Interest.
  - Commission.
  - Loss on Doubtful Accounts.

(§ *129—Continued from page 99.*)

Profit and Loss account has been made and posted, it shows his "Present Capital" or interest in the business. It is shown on the Balance Sheet as a part of the difference between the assets and liabilities.

¶ 10. *To Close the Partner's Capital Account.* This account is not closed until all the other accounts, required to be closed at the end of the fiscal period, have been closed into the Profit and Loss account, and that account closed into the Capital accounts. (§ 31.) It will then show all of his investments, withdrawals, etc., also his share of the net profit or loss. The balance, which is his present capital, is entered on the debit side with red ink as follows: the date of closing, the words "Present Capital," and the amount of the balance. The account is ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down on the credit side with black ink under date of the following business day.



C.W. Keeland Capital

May	31	Present Capital	✓	2739	32	191- Apr.	2		J1	1000	
									Cr	1000	
						May	31	Profit & Loss	J12	739	32
				2739	32					2739	32
						June	1	Present Capital	✓	2739	32

Illustration No. 50, Capital Account for Exercise No. 55.

PARTNER'S PERSONAL ACCOUNT.

§ **130. The Object of this Account** is to show the result of those transactions with a partner which does not affect his Capital account. These include withdrawals for salary, profit set aside for withdrawal, merchandise taken out of stock for private use, amounts advanced to be used in the interest of the business, and other similar transactions with partners.

Debit the Partner's Personal Account:

¶ 1. For amounts withdrawn which may be (a) check payable to himself; (b) check payable to someone else, but to be charged to him, or (c), currency taken from the cash register or petty cash drawer.

¶ 2. For merchandise taken out of stock for his private use.

¶ 3. For amounts advanced to be used in the interest of the business.

Credit the Partner's Personal Account:

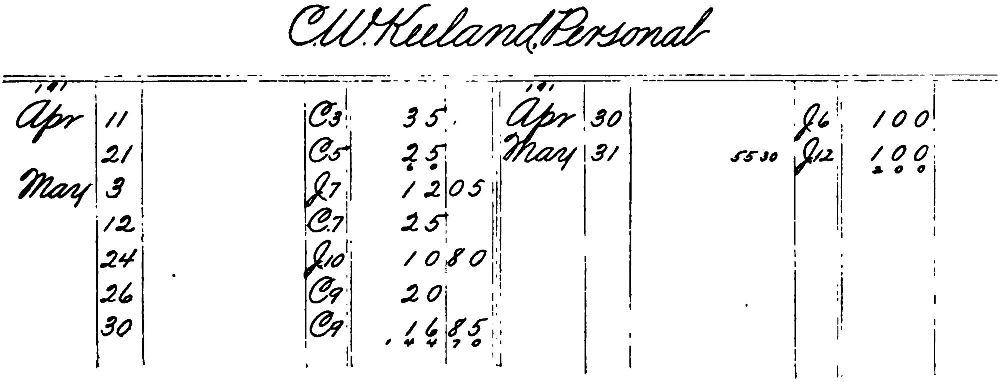
¶ 4. For his salary at the end of each month.

¶ 5. For amounts paid out of funds advanced to him (¶ 3) or his private funds in the interest of the business.

¶ 6. For that part of the profit to be withdrawn from the business.

¶ 7. *The Balance of the Partner's Personal Account* is the amount due the partner for services rendered, or due the business on account of overpayment. If the debit side is the larger, it is an asset and is shown with the assets on the Balance Sheet, appearing after all the current and fixed assets have been entered. If the credit side is the larger, it is a liability and is shown among the liabilities on the Balance Sheet, appearing after all obligations due outside parties have been listed. Some authorities on accounting advise showing the Partner's Personal account on the Balance Sheet as a deduction from, or an addition to the Capital account. The final results are the same in either case.

¶ 8. *To Close the Partner's Personal Account.* This account is not closed unless it is necessary to transfer the balance to a new page, or to the Partner's Capital account. The balance is entered on the smaller side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the balance is entered with red ink; if closed by a journal entry, it is written with black ink.



C.W. Keeland Personal

191						191					
Apr	11		C3	35		Apr	30		J6	100	
	21		C5	25		May	31	55 30	J12	100	
										200	
May	3		J7	12	05						
	12		C7	25							
	24		J10	10	80						
	26		C9	20							
	30		C9	16	85						
				144	70						

Illustration No. 51, Personal Account for Exercise No. 55.

Exercises in Partner's Accounts. Prepare on ledger paper a Capital and a Personal account with each partner in these three exercises. The transactions with C. W. Keeland in Exercise No. 55 are the same as Illustrations Nos. 50 and 51. References are to §§ 129 and 130.

Exercise No. 55, Capital and Personal Account with Two Partners.

Apr. 2. C. W. Keeland and A. D. Munson form a partnership for the purpose of engaging in the retail hay, grain, feed and coal business. C. W. Keeland invests coal on hand valued at $1,000.00, and cash, $1,000.00; A. D. Munson invests cash, $2,000.00 (§ 129, ¶ 5).

11. C. W. Keeland withdraws $35.00, and A. D. Munson $25.00 (§ 130).

21. Each partner withdraws $25.00.

30. Each partner is credited with $100.00, his salary for the month (§ 130.)

May 3. A. D. Munson takes merchandise out of stock valued at $9.47, and C. W. Keeland, merchandise valued at $12.05 (§ 130, ¶ 2).

12. C. W. Keeland withdraws $25.00 and A. D. Munson, $20.00.

24. A. D. Munson takes merchandise out of stock valued at $10:80, and C. W. Keeland, merchandise valued at $10.80.

26. Each partner withdraws $20.00.

30. Gave Wallace & Davis a check for $16.85 to pay a bill owed them by C. W. Keeland (§130, ¶ 1b).

31. Each partner is credited with his salary for the month (§ 130, ¶ 4). The Profit and Loss statement shows a net profit of $1,478.63; each Partner is credited with one-half of this amount (§ 129, ¶ 8).

Rule the Capital accounts and bring down the Present Capital as shown in Illustration No. 50.

Exercise No. 56, Capital and Personal Accounts with Two Partners.

Apr. 1. H. D. Frick and C. L. Thomas form a copartnership for the purpose of engaging in the retail drug business. Each partner is to invest an equal amount, share equally the profits or losses, and receive a salary of $100.00 per month.

H. D. Frick invests cash, $2,000.00; C. L. Thomas invests cash, $2,000.00 (§ 129, ¶ 5).

9. Frick withdraws $25.00 (§ 130, ¶ 1).
11. Thomas withdraws $15.00.
16. Frick takes merchandise out of stock valued at $24.85 (§ 130, ¶ 2).
20. Thomas takes merchandise out of stock valued at $10.50.
25. Thomas invests $1,000.00 and Frick $900.00 (§ 129, ¶ 6).
27. Thomas withdraws $25.00.
28. Frick withdraws $10.00.
30. Each partner is credited with his salary for the month.

May 9. Frick and Thomas both withdraw $300.00 from the investment (§ 129, ¶ 2).

12. Frick takes merchandise out of stock valued at $16.50.
19. Gave Jones Bros. a check for $36.50 to pay an account owed by Thomas (§ 130, ¶ 1b).
20. Thomas withdraws $15.00; Frick takes merchandise out of stock valued at $12.80.
25. Thomas takes merchandise out of stock valued at $18.65.
27. Thomas and Frick each withdraw $30.00.
31. Each partner is credited with his salary for the month.

The Profit and Loss statement shows a net profit of $826.92; each Partner's Capital account is credited with one-half of this (§ 129, ¶ 8).

Foot and rule the Capital account and bring down the Present Capital as shown in Illustration No. 50.

Exercise No. 57, Capital and Personal Accounts with Three Partners.

July 1. E. E. Admire, F. P. Schreiner and A. B. Johnston form a copartnership for the purpose of engaging in the retail hardware business. Each partner is to invest an equal amount and the profits or losses are to be shared equally. Each is to receive a salary of $100.00 per month.

E. E. Admire invests cash, $2,000.00; merchandise, $1,865.40; personal accounts, $269.50; notes receivable, $398.40 (§ 129, ¶ 5).

F. P. Schreiner invests cash, $2,500.00; real estate, $1,000.00; notes receivable, $850.70; accounts receivable, $562.50; the firm assumes a note for $350.00, which he owes at the First National Bank (§ 129, ¶¶ 1 and 5).

A. B. Johnston invests cash, $3,000.00; notes receivable, $1,000.00; accounts receivable, $500.00 (§ 129, ¶ 5).

9. Admire withdraws $10.00; Johnston takes merchandise out of stock valued at $16.50.
14. Schreiner withdraws $25.00.
20. Admire takes merchandise out of stock valued at $19.50; Schreiner withdraws $25.00.
25. Johnston withdraws $30.00.
26. Admire takes merchandise out of stock valued at $27.50.
28. Schreiner withdraws $15.00.
29. Johnston takes merchandise out of stock valued at $19.60.

(*Concluded on page 104.*)

(*Exercise No. 57—Continued from page 103.*)

July 31. Each partner is credited with his salary for the month.
Aug. 9. Each partner withdraws $300.00 from the amount invested (§ 129, ¶ 2).
11. Admire and Johnston both withdraw $25.00.
14. Schreiner withdraws $50.00.
20. Admire takes merchandise out of stock valued at $16.75.
22. Gave Mace & Brown a check for $18.40 to pay an account owed by Johnston.
23. Each partner invests an additional $1,000.00.
27. Gave S. D. Anderson $25.00 to apply on account owed him by Admire.
28. Each partner withdraws $25.00.
31. Each partner is credited with his salary for the month.
The Profit and Loss statement shows a net profit of $1,527.48; each Partner's Capital account is credited with $400.00 of this and their Personal accounts with the balance (§ 129, ¶ 8, and § 130, ¶ 6).

Foot and rule the Capital account and bring down the Present Capital as shown in Illustration No. 50.

ACCOUNTS WITH FIXED ASSETS.

§ **131. As Explained** in § 111, it is necessary to purchase certain property for use in the business. The nature of the property determines the name of the account. Since the property purchased for use in the office, storeroom, and for delivery purposes, is distinct and separate, it is considered the better practice to keep accounts with each class as follows: Office Equipment, Store Fixtures, and Delivery Equipment.

¶ 1. *Depreciation.* Depreciation refers to the decrease in value of property purchased for use in the business. It is necessary to show this depreciation on the Statement of the Business at the close of the fiscal period, otherwise the Balance Sheet will not show the true assets, nor the Profit and Loss statement, the operating cost for the period. There are two methods of showing this depreciation. In one method, the asset account representing the value of the property is credited with the estimated value at the close of the fiscal period, and the balance (difference between the estimated value and the cost) is charged to the proper operating cost. In the other method, the asset account representing the value of the property is not affected by the charge to operating cost for the amount of the depreciation, but is allowed to show the cost value. The proper operating account is charged with the amount of depreciation, and a reserve for depreciation account credited. This reserve for depreciation account is a valuation account (§ 27) and qualifies the asset account to which it refers; the balance of the asset account shows the original cost of the property, and the balance of the reserve for depreciation account, the estimated decrease in value. The difference between these two accounts shows the estimated present value of the asset. The latter plan is the better practice because the asset account shows the cost value, hence permits a more satisfactory settlement with the insurance adjuster in case of a fire.

The amount of the decrease will depend largely on the nature of the property. A typewriter which is in constant use will decrease more rapidly than a desk or safe. The depreciation each year is calculated on the original cost price and not on the present value. An adding machine which cost $400.00 January 1, 1917, will not be worth $400.00 at the end of the year. If it is estimated that the machine will be of useful service for ten years, it would be worth $360.00 at the end of the first year, $320.00 at the end of the second year, $280.00 at the end of the third year, etc.

The purpose of the discussion at this time is to show the necessity for taking into consideration the depreciation on property purchased for use in the business.

The amount of the depreciation is fixed by the management or by an appraisal company under the directions of the management.

This subject is ably discussed by a number of leading authorities on accounting, including Gilman, Montgomery, Dickinson, Hatfield, Salliers and Walton.

OFFICE EQUIPMENT ACCOUNT.

§ 132. **The Object of this Account** is to show the cost of the property purchased for use in the office, which includes all office furniture, such as desks, typewriters, safes, files, bookcases, chairs, tables, etc.

Debit Office Equipment Account:

¶ 1. For the cost value of office furniture on hand at the beginning of the business.

¶ 2. For the cost value of office furniture purchased during the fiscal period.

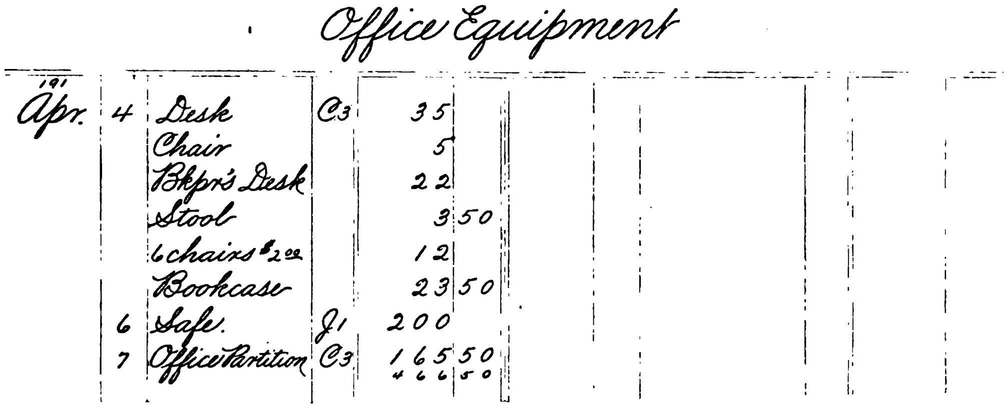
Credit Office Equipment Account:

¶ 3. For the cost value of office equipment sold or exchanged. (If the selling or exchange price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of office equipment destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under §133, ¶6.)

¶ 5. *The Balance of this Account* shows the cost value of the office equipment on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Office Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the credit side the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.



Office Equipment

191					
Apr.	4	Desk	C3	35	
		Chair		5	
		Bkpr's Desk		22	
		Stool		3	50
		6 chairs $2.00		12	
		Bookcase		23	50
	6	Safe.	J1	200	
	7	Office Partition	C3	165	50
				466	50

Illustration No. 52, Office Equipment Account for Exercise No. 58.

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT.

§ **133. The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in the value of the property purchased for use in the office. It is a valuation account (§ 27) and deducted from the cost of office equipment to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of office equipment discarded.

¶ 2. With the difference between the cost, and selling or exchange price of office equipment sold or exchanged.

¶ 3.* With the amount of depreciation on office equipment which has been stolen or unexpectedly destroyed. (See note under ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased. (The General Administrative Expense account is charged with this depreciation.)

NOTE. The amount set aside should be sufficient to take care of the actual decrease in value on account of use, hence the account should always show a credit balance.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of office equipment. It is shown on the Balance Sheet as a deduction from the cost of office equipment.

¶ 6. *To Close the Reserve for Depreciation of Office Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the smaller side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

Reserve for Depreciation of Office Equipment

191 May	31	5%	J2	23	33

Illustration No. 53, Reserve for Depreciation of Office Equipment Account for Exercise No. 58.

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*NOTE. If property charged to some fixed investment account is unexpectedly destroyed, stolen or dies, a journal entry is made debiting a special account with the loss, and the Reserve for Depreciation account with the depreciation, and crediting the fixed investment account representing the value of the property, with the cost price of the property. It is necessary to make this entry, because the cost value of this property is included in the debit side of the fixed investment account to which it was charged when purchased. If property is destroyed, stolen or dies, it is no longer in possession of the business, and as nothing was received for it, it is a loss. However, the loss to the business will not be the cost value, but the cost value less the amount credited to the depreciation account. To illustrate: January 1, 1915, a typewriter is purchased for $100.00 and charged to the Office Equipment account. At the end of the year, December 31, 1915, a depreciation of 10% is allowed for use of office equipment. December 31, 1916, another depreciation of 10% is allowed. In January, 1917, the typewriter is stolen and not recovered. The bookkeeper makes a journal entry debiting Loss on Stolen Typewriter $80.00, present value of the typewriter ($100.00–$10.00–$10.00), and Reserve for Depreciation of Office Equipment for $20.00, the amount charged off as depreciation, and crediting Office Equipment for $100.00, the cost of the typewriter.

STORE FIXTURES ACCOUNT.

§ **134. The Object of this Account** is to show the cost of property used in the storeroom, which includes shelving, show cases, scales, trucks, etc. The nature of this account is the same as the Office Equipment, and the various debits and credits are similar.

Debit Store Fixtures Account:

¶ 1. With the value of store fixtures on hand at the beginning of the business.

¶ 2. With the cost of store fixtures purchased during the fiscal period.

Credit Store Fixtures Account:

¶ 3. For the cost value of store fixtures sold or exchanged. (If the selling or exchange price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of store fixtures destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under § 133, ¶ 6.)

¶ 5. *The Balance of this Account* shows the cost value of the store fixtures on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Store Fixtures Account.* This account is not closed except as explained in § 132, ¶ 6, and is closed in the same manner.

RESERVE FOR DEPRECIATION OF STORE FIXTURES ACCOUNT.

§ **135. The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in value of the property purchased for use in the storeroom. It is a valuation account and deducted from the cost of store fixtures to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of store fixtures discarded.

¶ 2. With the difference between the cost, and selling or exchange price of store fixtures sold or exchanged.

¶ 3. With the amount of depreciation on store fixtures which have been stolen or unexpectedly destroyed. (See note under § 133, ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased. (The General Administrative Expense account is charged for this depreciation because the amount of the expense has been increased by using the property.)

See note under § 133, ¶ 4.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of store fixtures. It is shown on the Balance Sheet as a deduction from the cost of store fixtures.

¶ 6. *To Close the Reserve for Depreciation of Store Fixtures Account.* This account is not closed except as explained in § 133, ¶ 6, and is closed in the same manner.

DELIVERY EQUIPMENT ACCOUNT.

§ 136. **The Object of this Account** is to show the cost of all property purchased for use in delivering goods, which includes teams, wagons, harness, automobiles, or any other conveyances that may be used by the business in delivering goods to customers. The nature of the account is the same as the Office Equipment, and the various debits and credits are the same.

Debit Delivery Equipment Account:

¶ 1. With the value of delivery equipment on hand at the beginning of the business.

¶ 2. With the cost value of delivery equipment purchased during the fiscal period.

Credit Delivery Equipment Account:

¶ 3. For the cost value of delivery equipment sold or exchanged. (If this price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of delivery equipment destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under § 133, ¶ 6.)

¶ 5. *The Balance of this Account* shows the cost value of the delivery equipment on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Delivery Equipment Account.* This account is not closed except as explained in § 132, ¶ 6, and is closed in the same manner.

RESERVE FOR DEPRECIATION OF DELIVERY EQUIPMENT ACCOUNT.

§ 137. **The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in value of the property purchased for delivery purposes. It is a valuation account and deducted from the cost of delivery equipment to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of delivery equipment discarded.

¶ 2. With the difference between the cost, and selling or exchange price of delivery equipment sold or exchanged.

¶ 3. With the amount of depreciation on delivery equipment which has been stolen or unexpectedly destroyed. (See note under § 133, ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased or at the end of the first fiscal period. (The Selling Expense account is charged for this depreciation, because the amount of this expense has been increased by using the property.)

See note under § 133, ¶ 4.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of delivery equipment. It is shown on the Balance Sheet as a deduction from the cost of delivery equipment.

¶ 6. *To Close the Reserve for Depreciation of Delivery Equipment Account.* This account is not closed except as explained in § 133, ¶ 6, and is closed in the same manner.

Exercises in Fixed Asset Accounts. Prepare on ledger paper an account for each fixed asset and reserve for depreciation account in each of these three exercises. The transactions relating to office equipment in Exercise No. 58 are the same as Illustrations Nos. 52 and 53. References are to §§ 132–137. Write the name of the property purchased in the explanation column of each account.

Exercise No. 58, Fixed Asset Accounts.

Apr. 4. Bought one roller top desk, $35.00; one chair, $5.00; one bookkeeper's desk, $22.00; one stool, $3.50; six chairs, $12.00; one sectional book case, $23.50 (§ 132, ¶ 2).
Bought one horse named Charlie, $100.00; one horse named Bob, $90.00; one horse named Joe, $75.00; one horse named Sam, $85.00; one Studebaker wagon, $45.00; one American wagon, $40.00; harness, $15.00 (§ 136, ¶ 2).
Bought coal scales, $150.00 (§ 134, ¶ 2).
6. Bought one Mosier safe, $200.00 (§ 132, ¶ 2).
7. Paid $165.50 for new partition in office (§ 132, ¶ 2).
16. Bought one Fairbanks scales, $54.00 (§ 134, ¶ 2).
May 31. As this is the end of the fiscal period, the Reserve for Depreciation of Office Equipment account is credited with 5% of the debit side of the Office Equipment account; the Reserve for Depreciation of Store Fixtures account, credited with 5% of the debit side of the Store Fixtures account, and the Reserve for Depreciation of Delivery Equipment account, credited with 10% of the debit side of the Delivery Equipment account. (§§ 133, 135 and 137, ¶ 4 in each.) The accounts are footed with small pencil figures, but not ruled. See Illustrations Nos. 52 and 53.

Exercise No. 59, Fixed Asset Accounts.

Jan. 1. Office Equipment, on hand, as follows: safe, $150.00; desk, $30.00; chair, $5.00; typewriter, $100.00 (§ 132, ¶ 1). Store Fixtures on hand, as follows: show case, $40.00; shelving in the storeroom, $75.00; scales in the storeroom, $60.00 (§ 134, ¶ 1). Delivery Equipment on hand, as follows: one "Old Hickory" wagon, $50.00; one horse named Charlie, $100.00; one mule named Maud, $100.00; harness, $25.00 (§ 136,:¶ 1). Reserve for Depreciation of Office Equipment, Cr., $57.00. Reserve for Depreciation of Store Fixtures, Cr., $35.00. Reserve for Depreciation of Delivery Equipment, Cr., $55.00.
Feb. 2. Purchased one Packard Auto Truck, $1,500.00 (§ 136, ¶ 2).
22. Purchased two trucks for shipping room, $20.00 (§ 134, ¶ 2).
Mar. 25. Purchased a typewriter desk for $25.00 (§ 132, ¶ 2).
June 2. Paid $25.50 for shelving in the storeroom (§ 134, ¶ 2).
30. At the end of the fiscal period the Reserve for Depreciation of each account is credited with 5% of the cost price.

Exercise No. 60, Fixed Asset Accounts.

July 1. On hand: Safe, $140.00; typewriter, $60.00; roller top desk, $40.00; bookcase, $30.00; files, $30.00. Reserve for Depreciation of Office Equipment, Cr., $60.00. Scales, $60.00; trucks, $20.00; four counters, $75.00; shelving, $45.00. Reserve for Depreciation of Store Fixtures, Cr., $40.00. One horse named George, $125.00; one horse named Darby, $125.00; one People's wagon, $70.00; harness, $50.00. Reserve for Depreciation of Delivery Equipment, Cr., $74.00.

(Concluded on page 110.)

(*Exercise No. 60—Continued from page 109.*)

July 10. Paid $35.00 for bookkeeper's desk and $5.00 for stool.

15. Bought a show case for $30.00.

18. Sold two counters for $15.00 each (cost price, $18.75 each); (credit, § 134, ¶ 3; debit, § 135, ¶ 2).

20. Gave the typewriter on hand July 1 and $50.00 cash for a new one valued at $100.00.

Make a journal entry similar to the illustration below and show the amount of each debit and credit; post the amounts affecting the Office Equipment and Reserve accounts.

	Office Equipment	xxx	xx		
	Reserve for Depreciation of Office Equipment	xx	xx		
	Office Equipment			xx	xx
	Cash			xx	xx

Aug. 21. Bought a desk for shipping clerk, $35.00.

25. Gave the horse George, on hand July 1, and our check for $50.00 for a horse named Bill, valued at $150.00.

Make a journal entry similar to the illustration below and show the amount of each debit and credit; post the amounts affecting the Delivery Equipment and Reserve accounts.

	Delivery Equipment	xxx	xx		
	Reserve for Depreciation of Delivery Equipment	xx	xx		
	Delivery Equipment			xxx	xx
	Cash			xx	xx

Sept. 9. Gave safe on hand July 1, and our check for $100.00 for a new safe valued at $200.00. Make a journal entry similar to the illustration and show the amount of each debit and credit; post the amounts affecting the Office Equipment and Reserve accounts.

	Office Equipment	xxx	xx		
	Reserve for Depreciation of Office Equipment	xx	xx		
	Office Equipment			xxx	xx
	Cash			xxx	xx

16. The horse Darby was killed in a runaway. His present value, based on the depreciation, is $112.50.

Read note at bottom of page 106, and make a journal entry showing the amounts of each debit and credit in the illustration; post the amounts affecting the Delivery Equipment and Reserve accounts.

	Loss on Dead Horse	xxx	xx		
	Reserve for Depreciation of Delivery Equipment	xx	xx		
	Delivery Equipment			xxx	xx

16. Paid $100.00 for horse named Dolly (debit, § 136, ¶ 2).

27. Bought a typewriter desk for $15.00.

30. At the end of the fiscal period the Reserve for Depreciation of each account is credited with 5% of the cost price.

ACCOUNTS WITH MERCHANDISE.

§ **138. As explained** in § 41, one Merchandise account may show the result of all the transactions with the purchases and sales of merchandise. The following are the principal objections to the one account: (a) it causes returned sales to appear as purchases, and returned purchases to appear as sales; (b) it causes the cost price to appear on one side, and the selling price on the other side of the same account, which is contrary to the accounting principle that equal values should appear on both sides of the same account; (c) it causes one account to be both a nominal and a real account, which is contrary to the accounting principle that each account is either a nominal or a real account; (d) it requires an analysis of the account in order to show all the facts necessary on the Profit and Loss statement. The first two of these objections are overcome by keeping separate accounts with Purchases and Sales as explained in §§ 41a and 41b. The other objections may be overcome by separate accounts with Purchases, Freight In, Inventory, Purchases Discount, Sales, Sales Rebates and Allowances, and Sales Discount. When these accounts are kept, the Profit and Loss statement may be prepared from the Trial Balance and Inventory of merchandise on hand at the close of the fiscal period, without an analysis of the trading accounts in the ledger.

PURCHASES ACCOUNT.

§ 139. **The Object of this Account** is to show the invoice cost of merchandise purchased and any subsequent charges that increase this cost, if special accounts are not kept with these charges.

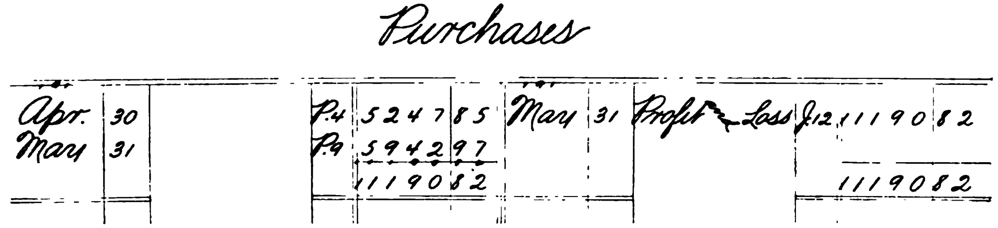
Debit Purchases Account:

¶ 1. For the cost of merchandise purchased for sale. This is represented by each purchase, or the totals of the purchases book and the purchases column in the cash book.

Credit Purchases Account:

¶ 2. For the cost of merchandise returned to the seller for credit.

¶ 3. For rebates or allowances made by the seller to us for damaged goods, shortages, or overcharges, if the full amount was charged. (These credits are usually represented by credit bills [§ 162] sent to us.)



Purchases

Apr.	30		P.4	5247	85	May	31	Profit & Loss	J.12	11190	82
May	31		P.9	5942	97						
				11190	82					11190	82

Illustration No. 54, Purchases Account for Exercise No. 61.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net cost (invoice cost) of the goods purchased since the beginning of the present fiscal period. It is not an asset if part of the goods have been sold, as is usually the case. It is necessary to take stock to ascertain the present value of the goods on hand. The Purchases account and the present inventory are both shown with the trading accounts on the Profit and Loss statement.

NOTE. If the Inventory account is treated as a summary account and closed into the Purchases account after the ledger is closed, it will appear on the debit side, preceding ¶1. This plan was followed in the introductory set. It is based on the assumption that the current fiscal period purchased the inventory of the preceding period. When this plan is followed all special accounts affecting the purchases cost are closed into this account, the balance then shows the net cost of merchandise sold.

¶ 5. *To Close the Purchases Account.* When the journal entry to close the trading accounts has been made and posted this account will balance, and it is ruled with single and double red lines and footed with black ink. If there is a single amount on each side, use double red lines only.

FREIGHT IN ACCOUNT.

§ 140. **The Object of this Account** is to show the amount paid for freight on merchandise purchased. Freight paid on merchandise purchased for sale is a part of its cost, and must be considered as such in ascertaining the selling price. Amounts paid for freight on merchandise purchased may be charged directly to the Purchases account or to a special Freight In account. As mistakes may occur in rendering freight bills, it is the better practice to keep a separate account so that rebates for freight may be credited to this account, and the net amount paid for freight be shown by the balance. Freight paid on goods purchased is entirely different from that paid on goods delivered to customers (freight out) and these amounts should be represented by separate accounts. One represents a part of the cost of merchandise purchased and the other a part of the selling expense.

Debit the Freight In Account:	*Credit the Freight In Account:*
¶ 1. For (a), amounts paid for freight, express, postage, or drayage on merchandise purchased, and (b), freight prepaid on our purchases and charged on the invoice.	¶ 2. For rebates allowed for overcharges on freight if the amount was charged to this account. ¶ 3. For any amount that reduces the cost of freight.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net amount paid for freight on merchandise purchased. It is shown with the trading accounts on the Profit and Loss statement as a part of the cost of merchandise purchased.

¶ 5. *To Close the Freight In Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and it is ruled with single and double red lines and footed with black ink.

Freight In

191						191					
Apr.	2		C3	229	80	May	31	Profit & Loss	J12	2749	48
	13		C3	436	74						
	30		C3	765	29						
May	16		C5	752	44						
	18		J9	49	06						
	31		C7	430	15						
		Drayage	J12	86							
				2749	48					2749	48

Illustration No. 55, Freight In Account for Exercise No. 61.

NOTE. If desired, the balance may be closed into the Purchases account by a separate journal entry. This plan is followed when the Purchases account is to show the invoice and freight cost of merchandise for the fiscal period.

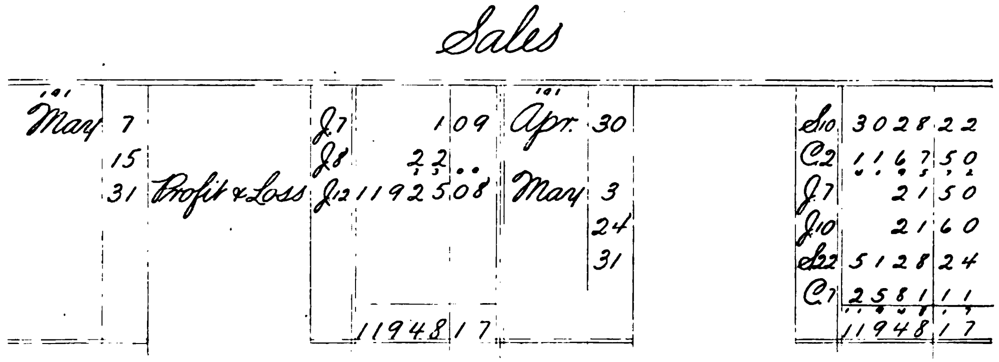
SALES ACCOUNT.

§ 141. **The Object of this Account** is to show the amount received from the sale of merchandise. Usually only one account is kept with sales, but if it is desired to know the sales from different departments, a separate account may be kept with each of them.

Debit the Sales Account:	*Credit the Sales Account:*
¶ 1. For the selling price of all merchandise returned by customers for credit, for credits allowed for errors in billing, and for shortages.	¶ 2. For (a) each cash or credit sale, or (b) at the end of the month for the total cash sales, as shown by the "Sales" column in the cash book, and the credit sales as shown by the total of the sales book. ¶ 3. For returns from special sales. ¶ 4. For amount of errors in shipping when a customer receives more merchandise than was charged to him.

¶ 5. *The Difference Between the Two Sides of this Account* shows the net sales since the beginning of the current fiscal period. It is shown with the trading accounts on the Profit and Loss statement as the returns from sales.

¶ 6. *To Close the Sales Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.



Sales

191						191					
May	7		J7	1	09	Apr.	30		S10	3028	22
	15		J8	22	..				C2	1167	50
	31	Profit & Loss	J12	11925	08	May	3		J7	21	50
							24		J10	21	60
							31		S22	5128	24
									C7	2581	11
				11948	17					11948	17

Illustration No. 56, Sales Account for Exercise No. 61.

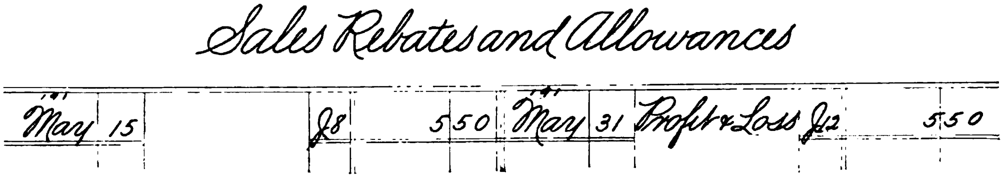
SALES REBATES AND ALLOWANCES ACCOUNT.

§ 142. **The Object of this Account** is to show the amount of the deductions made by customers on account of merchandise being damaged or not equal to sample, or other allowances. This account is not necessary unless the management wishes to have the rebates and allowances shown separately; an account of much size indicates that customers are not receiving satisfactory service.

Debit Sales Reb. and Allow. Acct.	*Credit Sales Reb. and Allow. Acct.*
¶ 1. For the amount of deductions allowed that do not affect the Sales or Sales Discount account.	¶ 2. For any error in allowing rebates which is not discovered until after the rebate is allowed.

¶ 3. *The Difference Between the Two Sides of this Account* will show the total amount of rebates and allowances allowed customers. It is shown with the trading accounts on the Profit and Loss statement, as a deduction from the returns from sales.

¶ 4. *To Close the Sales Rebates and Allowances Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.



Sales Rebates and Allowances

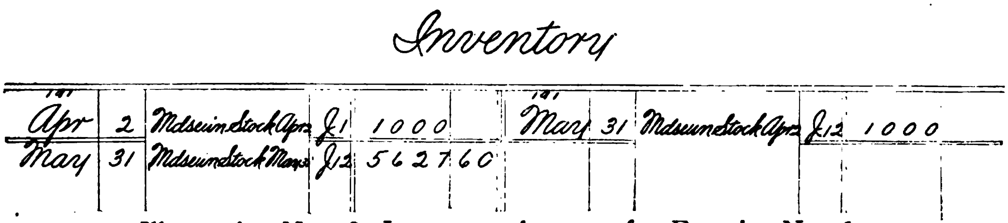
191 May	15		J8	5	50	191 May	31	Profit & Loss	J12	5	50

Illustration No. 57, Sales Rebates and Allowances Account for Exercise No. 61.

INVENTORY ACCOUNT.

§ 143. **The Object of this Account** is to show the value of merchandise on hand at the close of the fiscal period. It may be regarded as a summary account and closed into the Purchases account after the ledger is closed, or remain open until the close of the fiscal period. The latter is considered the better practice because it permits errors in taking stock to show on the Inventory account.

Debit the Inventory Account:	*Credit the Inventory Account:*
¶ 1. For the value of salable merchandise on hand at the beginning of the business. ¶ 2. For the value of salable merchandise on hand at the end of the current fiscal period.	¶ 3. At the close of each fiscal period with the cost of salable merchandise on hand at the beginning of the period. (This is the same credit as the debit described in ¶ 1.)



Inventory

191 Apr	2	Mdse in Stock Apr	J1	1000		191 May	31	Mdse in Stock Apr	J12	1000	
May	31	Mdse in Stock May	J12	5627	60						

Illustration No. 58, Inventory Account for Exercise No. 61.

¶ 4. *The Difference Between the Two Sides of this Account* shows the value of merchandise on hand at the close of the fiscal period, and corresponds to the amount of merchandise on hand as shown by the last inventory. It is shown with the trading accounts on the Profit and Loss statement, being added to the net cost of merchandise purchased, also as a current asset on the Balance Sheet.

¶ 5. *To Close the Inventory Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink. See note under § 139, ¶ 4.

MERCHANDISE DISCOUNT.

§ **144. It is Customary in Business** to allow a special discount for prompt payment of long-time purchases or sales. This discount is indicated in the terms on the invoice or bill (§ 166). It is usually termed: "Merchandise Discount," to distinguish it from interest paid in advance, which is sometimes termed "Discount."

Discount deducted for prompt payment may be considered as reducing the cost of merchandise purchased, or the returns from sales of merchandise; or as interest. This question is decided by those interested or by the conditions under which the business is being conducted. In this set, deductions for prompt payment will be considered as reducing the cost of merchandise purchased or the returns from sales.

One account may be kept with discounts deducted by the business for prompt payment of obligations, and those allowed to customers on bills; but it is better practice to keep two separate accounts. When this is done, the discount deducted by the business is termed "Purchases Discount," and that allowed to customers, "Sales Discount."

PURCHASES DISCOUNT ACCOUNT.

§ **145. The Object of this Account** is to show the total deductions made for prompt payment of obligations owed by the business. These deductions are made according to the terms on the invoices. (§ 166.)

Debit the Purchases Discount Account:

¶ 1. For the amount of an error in our favor made by us in deducting discount and afterwards reported.

¶ 2. For the amount of discount deducted by us and not allowed by the person or firm to whom the remittance is sent.

Credit the Purchases Discount Account:

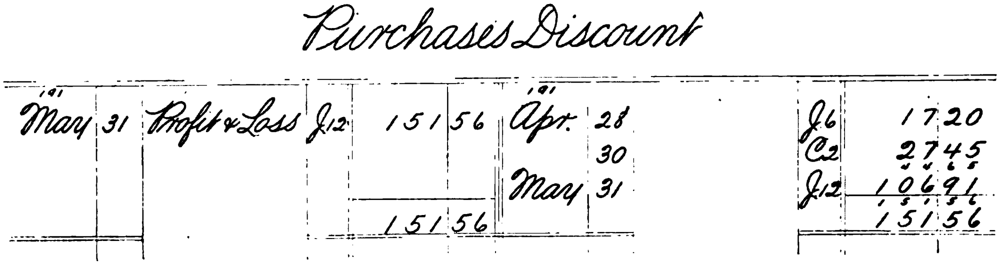
¶ 3. For the difference between the face of the invoice and the amount of our check when the deduction is made, according to terms of the invoice.

¶ 4. For discount on partial payments of invoices subject to discount. (§ 167.)

¶ 5. *The Difference Between the Two Sides of this Account* shows the net amount of discount deducted for prompt payment of obligations. It is shown with the trading accounts on the Profit and Loss statement as a deduction from the cost of merchandise purchased. See note below.

NOTE. Some accountants consider deductions for prompt payment as interest on the capital invested and not as a reduction of the cost of merchandise purchased, in which case it would appear with "Other Income." This is a question to be decided by those interested in view of the conditions under which the business is being conducted.

¶ 6. *To Close the Purchases Discount Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.



Purchases Discount

191					191				
May	31	Profit & Loss	J12	151 56	Apr.	28		J6	17 20
						30		C2	27 45
					May	31		J12	106 91
				151 56					151 56

Illustration No. 59, Purchases Discount Account for Exercise No. 61.

SALES DISCOUNT ACCOUNT.

§ **146. The Object of this Account** is to show the total deductions made by customers for prompt payment of bills purchased. These deductions are allowed according to the terms of the bills.

Debit Sales Discount Account:

¶ 1. With the difference between the amount of the remittance received from a customer and the face of the bill, when this remittance is accepted for full payment of the bill as indicated by the terms.

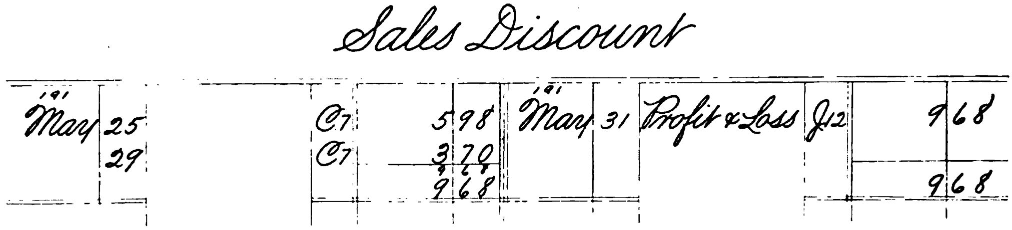
¶ 2. For discount allowed on partial payments of bills subject to discount. (§ 167.)

Credit Sales Discount Account:

¶ 3. For an error made by a customer in his favor in deducting the discount, when the error is not discovered until after the credit has been allowed.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net amount of discount allowed customers for prompt payment of goods purchased. It is shown with the trading accounts on the Profit and Loss statement as a deduction from the returns from sales. See note below.

¶ 5. *To Close the Sales Discount Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.



Sales Discount

191					191				
May	25		C7	5 98	May	31	Profit & Loss	J12	9 68
	29		C7	3 70					
				9 68					9 68

Illustration No. 60, Sales Discount Account for Exercise No. 61.

NOTE. Some accountants consider deductions made by customers as an interest charge against the capital invested and not a reduction in the returns from sales, in which case it would appear as a "Deduction from Income." This is a question that must be decided by those interested in view of the conditions under which the business is being conducted.

Exercises in Merchandise Accounts. Prepare on ledger paper a Purchases, Sales, Inventory, Freight In, Sales Discount, Purchases Discount and Sales Rebates and Allowances account for each of these three exercises. Exercise No. 61 is the same as Illustrations Nos. 54–60. References are to §§ 139–146.

Exercise No. 61, Accounts with Merchandise.

Apr. 2. Inventory of merchandise on hand, $1,000.00 (§ 143, ¶ 1).
Paid freight on merchandise purchased, $229.80 (§ 140, ¶ 1).
13. Paid freight on merchandise purchased, $436.74 (§ 140, ¶ 1).
28. Paid Western Hay & Grain Co. amount due less $17.20, discount as per terms of the invoice (§ 145, ¶ 3).
30. Paid freight on merchandise purchased, $765.29 (§ 140, ¶ 1).
Total credit sales for the month, per sales book, $3,028.22 (§ 141, ¶ 2b).
Total credit purchases for the month, per purchases book, $5,247.85 (§ 139, ¶ 1).
Total purchases discount, per purchases discount column in the cash book, $27.45 (§ 145, ¶ 3).
Total cash sales for the month, per sales column in the cash book, $1,167.50 (§ 141, ¶ 2b).
May 3. Charged A. D. Munson's Personal account with $9.45, and C. W. Keeland's with $12.05, for merchandise taken out of stock for private use (§ 141, ¶ 3).
7. Allowed W. H. Ingram credit for $1.09, overcharge in price on merchandise purchased by him (§ 141, ¶ 1).
15. Allowed J. A. Bird credit for $27.50, $22.00 for 20 sacks of shorts at $1.10 returned for credit (§ 141, ¶ 1), and $5.50 for damaged goods (§ 142, ¶ 1).
16. Paid freight on merchandise purchased, $752.44.
18. Allowed W. H. Ingram credit for $19.07 and Short Bros. $29.99, total, $49.06, to equalize freight charges (§ 140, ¶ 1).
24. Charged A. D. Munson's Personal account with $10.80, and C. W. Keeland's with $10.80, total $21.60, merchandise taken out of stock for private use (§ 141, ¶ 3).
25. Allowed Short Bros. credit for $5.98 sales discount, being 1% of the sale made them on account (§ 146, ¶ 1).
26. Allowed W. H. Ingram credit for $3.70 sales discount, being 1% of the sale made him on account (§ 146, ¶ 1).
31. Paid freight on merchandise purchased, $430.15 (§ 140, ¶ 1).
Credited Selling Expense with $86.00, the proportionate part of the drayage on merchandise purchased (§ 140, ¶ 1a).
Total credit sales for the month, per sales book, $5,128.24.
Total credit purchases for the month, per purchases book, $5,942.97 (§ 139, ¶ 1).
Total purchases discount, per purchases discount column in the cash book, $106.91 (§ 145, ¶ 3).
Total cash sales for the month, per sales column in the cash book, $2,581.11 (§ 141, ¶ 2b).
Merchandise on hand, $4,627.60.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as shown in Illustrations Nos. 54–60. The inventory of merchandise on hand May 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black ink in the illustration because each amount is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

Exercise No. 62, Accounts with Merchandise.

July 2. Inventory of merchandise on hand, $5,627.85 (§ 143, ¶ 1).
3. Bought on account, $396.35 (§ 139, ¶ 1).
5. Sold on account, $162.95 (§ 141, ¶ 2).
6. Sold for cash, $236.95 (§ 141, ¶ 2).
7. Bought for cash, $397.62 (§ 139, ¶ 1).
Paid freight on merchandise purchased, $45.60 (§ 140, ¶ 1).
10. Returned a part of merchandise purchased and received credit for $56.29.
12. Allowed a customer a credit of $10.65 for merchandise returned.
13. Deducted $13.50 from an invoice due a creditor for prompt payment.
Sold on account, $427.65.
14. Sold for cash, $469.52.
16. Bought on account, $927.65.
Paid freight on merchandise purchased, $29.85.
17. Allowed a customer credit for $18.65 for overcharge on a sale (§ 141, ¶ 1).
18. Bought on account, $216.75.
19. Paid freight on merchandise purchased, $16.50.
21. Bought for cash, $219.27.
23. Sold on account, $565.92.
Bought for cash, $156.97.
28. Returned merchandise to a creditor and received credit for $41.27.
30. Sold for cash, $327.65.
Aug. 9. Purchased on account, $219.65.
Sold on account, $327.65.
15. Sold for cash, $156.90.
16. Paid freight on goods purchased, $72.65.
17. Bought on account, $250.12.
18. Received credit for $150.70, value of merchandise returned to a creditor because it was damaged (§ 139, ¶ 3).
Allowed a customer a credit of $25.60 for goods returned (§ 141, ¶ 1).
20. Deducted $12.50 from an invoice paid to a creditor for prompt payment.
22. Sold on account, $216.25.
23. Purchased on account, $429.80.
Allowed a customer a discount of $16.80 for prompt payment of a bill.
24. Sold on account, $209.12.
Allowed a customer a credit of $16.37 for an overcharge (§ 141, ¶ 1).
25. Purchased on account, $312.62.
Sold for cash, $426.90.
27. Allowed a customer a discount of $5.90 for prompt payment of a bill.
Received credit for $19.55, value of merchandise returned to a creditor because it was damaged.
29. Allowed a customer a credit of $14.20 for goods returned by him.
Deducted $14.29 discount on an invoice paid a creditor.
30. Allowed a customer credit for $5.60 on account of damaged goods.
31. Merchandise on hand, $5,681.37.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as shown in Illustrations Nos. 54–60. The inventory of merchandise on hand August 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black ink in the illustration because each is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

Exercise No. 63, Accounts with Merchandise.

Sept. 1. Inventory of merchandise on hand, $16,427.95.
16. Paid freight on merchandise purchased, $462.79.
30. Paid freight on merchandise purchased, $572.45.
Cash sales for the month per sales column in the cash book, $3,624.78
Credit sales, per sales book, $9,479.21.
Credit purchases, per purchases book, $4,629.87.
Oct. 5. Deducted discount from an invoice purchased, $86.27.
9. Returned a part of merchandise purchased and received credit for $142.87.
12. Allowed a customer a discount of $26.75 for prompt payment of a bill.
13. A customer returned a part of merchandise sold him and we allowed him credit for $36.82.
15. Paid freight bills for merchandise purchased, $862.75.
20. Deducted $72.56 discount from an invoice purchased.
21. A customer reports a part of goods sold him not as good as sample, and we allowed him a credit of $27.84 (§ 142, ¶ 1).
24. Received credit for $109.34, merchandise returned to a creditor.
25. A creditor notified us that we made a mistake of $10.00 in deducting discount and stated that our account had been debited with the amount of the error (§ 145, ¶ 1).
26. Received $9.72 from the railroad company for an error in a freight bill (§ 140, ¶ 2).
27. A customer deducted $18.75 discount for prompt payment of a bill.
28. Allowed a customer credit for $57.82, merchandise returned.
Deducted $61.85 discount from an invoice for prompt payment.
29. A customer made an error of $3.50 in calculating discount and his account was charged with the amount (§ 146, ¶ 3).
31. Paid freight bills on goods, $627.92.
Cash sales, per sales column in the cash book, $4,592.81.
Credit sales, per sales book, $10,627.45.
Cash purchases, per purchases column in the cash book, $3,349.37.
Credit purchases, per purchases book, $9,752.98.
Merchandise on hand, per inventory, $14,693.21.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as shown in Illustrations Nos. 54–60. The inventory of merchandise on hand October 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black in the illustration because each amount is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

ACCOUNTS WITH EXPENSE.

§ 147. **The Expenses** of conducting a trading business may be divided into two distinct classes, one of which represents the cost of maintaining the office, and the other the cost of selling goods. As explained in § 33, one Expense account may represent all of these expenses, but it is better practice to keep an account with each class. In this set the General Administrative Expense account represents the cost of maintaining the office, and the Selling Expense account, the cost of selling goods. A further classification of these expense accounts may be made if desired; this will be explained in the succeeding sets.

GENERAL ADMINISTRATIVE EXPENSE ACCOUNT.

§ 148. **The Object of this Account** is to show the total expenses incurred in the conduct of the business except those chargeable to Selling Expense, as explained in § 149. The charges to this account include rent, salaries of partners, bookkeepers and office employees, depreciation of office equipment and store fixtures, stationery, books, etc.

Debit General Admr. Expense Acct.:

¶ 1. For partners' salaries.
¶ 2. For rent.
¶ 3. For telephone, telegrams and miscellaneous services.
¶ 4. For repairs on office equipment and store fixtures.
¶ 5. For depreciation on office equipment and store fixtures.
¶ 6. For salaries of all employees except those engaged in the selling department.
¶ 7. For license or other taxes levied for the privilege of doing business.
¶ 8. For insurance on property purchased for sale and for use in the office and store room.
¶ 9. For cost of property that will be consumed by its use, such as stamps, stationery, etc.*
¶ 10. For amounts paid for collecting notes and drafts, and paid to the bank for issuing exchange, collecting out-of-town checks, etc.

Credit General Admr. Expense Acct.:

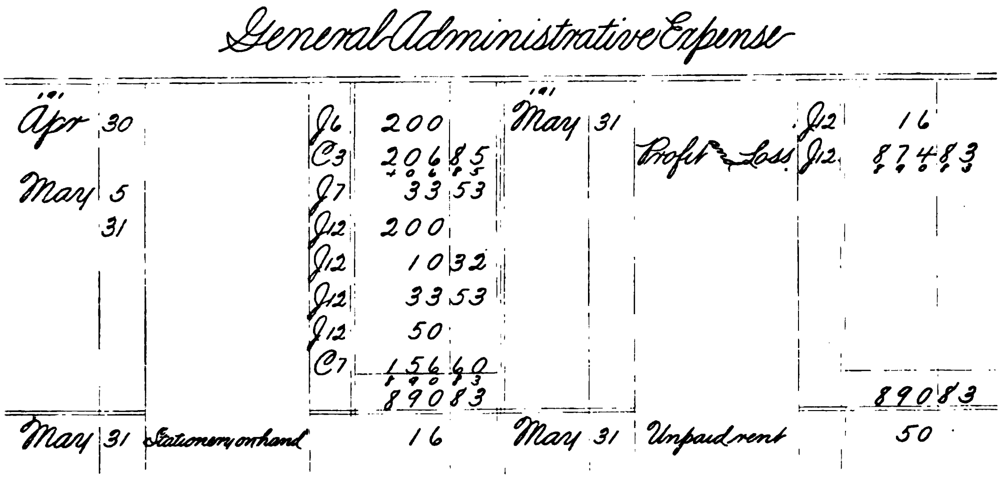
¶ 11. For any amounts received which reduce the charges to this account.
¶ 12. For amounts received for the sale of property, the cost of which was charged to this account.

¶ 13. *The Difference Between the Two Sides of this Account* shows the net cost of conducting the business, except amounts paid for selling expense. It is shown as a deduction from the gross profit on sales on the Profit and Loss statement.

¶ 14. *To Close the General Administrative Expense Account.* When the journal entry to close the profit and loss accounts is made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

*NOTE. A special account may be kept with Office Supplies, if desired, in which case amounts paid for stationery, ink, pens, statements, etc., for use in the office are charged (debited) to this account. It is credited for amounts received that reduce the cost shown on the debit side. At the close of the fiscal period it is credited with the value of office supplies on hand, and the Deferred Charges to Operations account debited. After this entry is made and posted, the *balance* shows the net cost of office supplies used during the period. This is an operating cost and shown as such on the Profit and Loss statement.

In the same way special accounts may be kept with Stamps, Shipping Room Supplies, Advertising Material, Warehouse Supplies, and other property that will be consumed by its use. These special accounts are not advisable unless the amounts involved are large, as efficient accounting requires only necessary accounts.



General Administrative Expense

191					191				
Apr	30		J6	200	May	31		J12	16
			C3	206 85			Profit & Loss	J12	874 83
May	5		J7	33 53					
	31		J12	200					
			J12	10 32					
			J12	33 53					
			J12	50					
			C7	156 60					
				890 83					890 83
May	31	Stationery on hand		16	May	31	Unpaid rent		50

Illustration No. 61, General Administrative Expense Account for Exercise No. 64.

SELLING EXPENSE ACCOUNT.

§ 149. **The Object of this Account** is to show the cost of selling goods. This includes amounts paid to clerks in the selling department, for delivery cost, advertising and other selling expenses.

Debit the Selling Expense Account:

¶ 1. For amounts paid employees for services rendered in selling merchandise.

¶ 2. For amounts paid for delivering merchandise, which includes the cost of maintaining the delivery equipment.

¶ 3. For amounts paid for advertising and traveling expense, unless special accounts are kept with these.

¶ 4. For freight paid on merchandise which is to be delivered at the customer's freight station, if a special account is not kept with Freight Out.

¶ 5. For the depreciation and insurance on delivery equipment, unless a special account is kept with Delivery Expense.

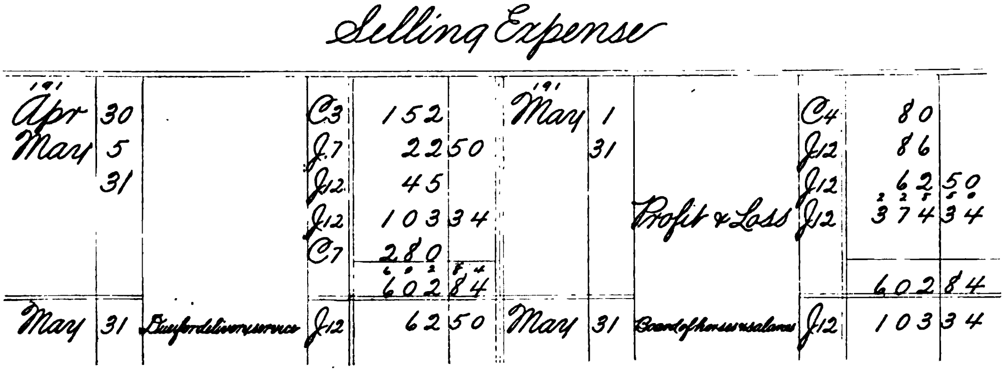
Credit the Selling Expense Account:

¶ 6. (*a*) For amounts received that reduce the cost of selling expense. (*b*) For any part of this account transferred to Freight In or some other account.

¶ 7. For amounts received for services rendered to others by our delivery equipment, unless a special account is kept with Delivery Expense.

¶ 8. *The Difference Between the Two Sides of this Account* shows the net cost of selling goods. The debit side is always the larger. It is shown as a deduction from the gross profit on sales on the Profit and Loss statement.

¶ 9. *To Close the Selling Expense Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.



Selling Expense

191						191					
Apr	30		C3	152		May	1		C4	80	
May	5		J.7	22	50		31		J12	86	
	31		J12	45					J12	62	50
			J12	103	34			Profit & Loss	J12	374	34
			C7	280							
				602	84					602	84
May	31	Due for delivery service	J12	62	50	May	31	Board of horses & salaries	J12	103	34

Illustration No. 62, Selling Expense Account for Exercise No. 64.

Exercises in Expense Accounts. Prepare on ledger paper a General Administrative and Selling Expense account for each of these three exercises. Exercise No. 64 is the same as Illustrations Nos. 61 and 62. References are to §§ 148 and 149.

Exercise No. 64, Expense Accounts.

Apr. 30. Partners' salaries, $200.00 (§ 148, ¶ 1).
Total of the General Administrative Expense column on the credit side of the cash book, $206.85 (§ 148, ¶¶ 2, 3, 4, 6, 7).
Total of the Selling Expense column on the credit side of the cash book, $152.00 (§ 149).

May 1. Received $80.00 from Borches & Co., for use of delivery equipment during April (§ 149, ¶ 7).

5. Gave Gibson & Perin a check for $56.03 in payment for office stationery, $33.53 (§ 148, ¶ 9) and advertising matter, $22.50 (§ 149, ¶ 3).

31. Partner's salaries, $200.00 (§ 148, ¶ 1).
Insurance expired, $10.32 (§ 148, ¶ 8).
At the close of the fiscal period, the proper accounts were debited with the depreciation on office equipment and store fixtures, $33.53 (§ 148, ¶ 5), and delivery equipment, $45.00 (§ 149, ¶ 5); the general Administrative Expense account was debited with $50.00, rent of warehouse for May; the Selling Expense account was debited with $70.00 for board of horses for May and $33.34 unpaid pay roll; the Selling Expense account was credited with $86.00, the proportionate part of the drayage on merchandise purchased (§ 149, ¶ 6b), and $62.50, the amount due from Borches & Co. for the use of our delivery equipment (§ 149, ¶ 7).
Total of the General Administrative Expense column on the credit side of the cash book, $156.60.
Total of the Selling Expense column on the credit side of the cash book, $280.00.

When all the transactions have been entered, close each account into the Profit and Loss account; enter the balance with black ink as shown in the illustrations. Rule each account with single and double red lines and foot with black ink. The entry to transfer the balance to the Profit and Loss account is written with black ink in the illustration because the entry is posted from the journal and not transferred direct.

Exercise No. 65, Expense Accounts.

June 1. Paid telephone bill, $20.00 (§ 148, ¶ 3).
5. Paid for stamps, $10.00 (§ 148, ¶ 9).
6. Pay roll in selling department for the week, $40.00 (§ 149, ¶ 1).
8. Paid for varnishing office furniture, $5.75 (§ 148, ¶ 4).
10. Paid for stationery and blank books, $35.60 (§ 148, ¶ 9).
12. Paid for shoeing horses, $2.50 (§ 149, ¶ 2).
13. Pay roll in selling department for the week, $40.00.
15. Paid $18.00 for license (§ 148, ¶ 7).
20. Paid $10.00 for stamps.
Pay roll in selling department for the week, $40.00.
25. Paid for repairing floor in office, $12.00 (§ 148, ¶ 4).
27. Pay roll in selling department for the week, $40.00.
30. Partners' salaries, $200.00 (§ 148, ¶ 1).
Salaries of office help, $100.00 (§ 148, ¶ 6).
July 3. Pay roll in selling department for the week, $40.00.
6. Sold a customer stamps for $3.50 (§ 148, ¶ 12).
7. Paid collection charges on a note, $2.00 (§ 148, ¶ 10).
10. Paid $16.50 freight on merchandise sold a customer which we had agreed to deliver (§ 149, ¶ 4).
11. Pay roll in selling department for the week, $40.00.
Paid for board of horses, $35.00 (§ 149, ¶ 2).
13. Paid charges on a telegram, $1.00 (§ 148, ¶ 3).
16. Received $26.80 for delivery service (§ 149, ¶ 7).
18. Pay roll in selling department for the week, $40.00.
23. Paid for repairs on scales, $2.50 (§ 148, ¶ 4).
25. Pay roll in selling department for the week, $40.00.
31. Partners' salaries, $200.00.
Salaries of office help, $100.00.
At the close of the fiscal period, the proper accounts were debited with the depreciation on office equipment, $16.85 (§ 148, ¶ 5); store fixtures, $13.50 (§ 148, ¶ 5); delivery equipment, $18.00 (§ 149, ¶ 5); General Administrative Expense account was debited with $201.92, 1-6 (two months) of the amount ($1,211.50) paid for insurance (§ 148, ¶ 8); and Selling Expense with $33.33 unpaid pay roll (§ 149).

Close each account as shown in the illustrations.

Exercise No. 66, Expense Accounts.

Aug. 1. Paid rent in advance, $50.00.
2. Paid for telephone, $4.00.
3. Paid for license, $20.00.
15. Pay roll for office help, $36.50; clerks and drivers' salaries, $80.00 (§ 149, ¶¶ 1 and 2).
22. Paid for papering office, $16.50.
31. Partners' salaries, $150.00.
Pay roll for office help, $36.50; clerks and drivers' salaries, $80.00.
Sept. 1. Paid rent in advance, $50.00.
Paid for board of horses, $60.00 (§ 149, ¶ 2).
2. Paid advertising bill, $18.00 (§ 149, ¶ 3).
3. Paid phone rent, $4.00.
10. Paid blacksmith's bill, $10.50 (§ 149, ¶ 2).

(*Concluded on page 124.*)

(*Exercise No. 66—Continued from page 123.*)

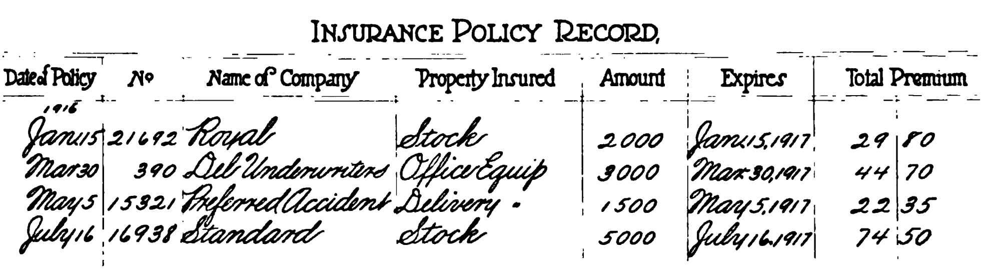
Sept. 14. Paid for repairs on store fixtures, $12.65.
15. Pay roll: Office help, $36.50; clerks and drivers, $80.00.
23. Paid for stamps, $20.00.
24. Bought office stationery, $11.60.
27. Sold stamps for $4.50 (§ 148, ¶ 12).
30. Partners' salaries, $150.00.
Pay roll: Office help, $36.50; clerks and drivers, $80.00.
Oct. 1. Paid rent in advance, $50.00.
2. Paid phone rent, $4.00.
Paid for board of horses, $60.00.
10. Paid for repairs on office furniture, $9.60.
14. Collected for delivery service, $36.50 (§ 149, ¶ 7).
15. Paid for stamps, $10.00.
Paid advertising bill, $6.50.
Pay roll: Office help, $36.50; clerks and drivers, $80.00.
25. Paid $16.85 freight on merchandise delivered to a customer (§ 149, ¶ 4).
31. Pay roll: Office help, $36.50; clerks and drivers, $80.00.
Partners' salaries, $150.00.
At the close of the fiscal period, the General Administrative Expense account was debited with $22.50, ¼ (three months) of the amount ($90.00) paid for insurance. The proper accounts were debited with the depreciation on office equipment, $19.65; store fixtures, $12.50, and delivery equipment, $16.95.

Close each account as shown in the illustrations.

INSURANCE.

§ 150. **Where there is a possibility** of property being destroyed by fire or other accidental causes, the owner should be protected against such loss by insurance. To secure this protection, it is necessary to obtain a policy from an insurance company for which a premium must be paid. The policy is the contract or agreement with the insurance company. The premium is the amount paid for the protection. Insurance policies are usually issued for one year, and the premium is based on this time. If the policy is issued for a less time, what is termed the "short rate" will be charged, that is, the premium will be the proportionate part of the year with a small additional charge.

¶ 1. *Policy Record.* A record of each policy should be kept in a specially prepared book which is known as the "Insurance Policy Record." This book is ruled to show the following information: date of the policy; the policy number; the name of the company issuing the policy; the property covered (merchandise, fixed assets, buildings, etc.); amount of insurance; date of expiration; total premium; and if desired, the monthly expirations. The object of this record is to provide a



INSURANCE POLICY RECORD.

Date of Policy	No	Name of Company	Property Insured	Amount	Expires	Total Premium	
1916							
Jan 15	21692	Royal	Stock	2000	Jan 15, 1917	29	80
Mar 30	390	Del Underwriters	Office Equip	3000	Mar 30, 1917	44	70
May 5	15321	Preferred Accident	Delivery	1500	May 5, 1917	22	35
July 16	16938	Standard	Stock	5000	July 16, 1917	74	50

Illustration No. 63, Left page of Insurance Policy Record.

list of all insurance policies that the value of the insurance expired during the fiscal period may be readily ascertained. This record is also important in case of a fire or the loss of a policy. As a rule the agent of the insurance company will see that each policy is renewed, but it is advisable for the management to have a record of the insurance that the renewal of policies may not be neglected. See Illustration No. 63.

INSURANCE ACCOUNT.

§ **151. The Object of this Account** is to show the amount paid for insurance. As the property insured may be of different natures and affect different operating accounts, it is best to charge all amounts paid for insurance to the Insurance account, and at the close of each fiscal period, credit this account with the insurance that has expired, and debit the operating account or accounts affected.

Debit the Insurance Account:	*Credit the Insurance Account:*
¶ 1. With all amounts paid for insurance premiums.	¶ 2. With insurance premiums refunded on canceled policies.
	¶ 3. At the close of each fiscal period for the proportion of insurance expired.

Insurance

191						191					
Apr.	11		C3	49	50	May	31		J12	10	31
May	29		C7	24	75						
				74	25						

Illustration No. 64, Insurance Account.

¶ 4. *The Balance of this Account,* after the credits have been entered, shows the amount of unexpired insurance. It is shown as a deferred charge to operations on the Balance Sheet.

¶ 5. *To Close the Insurance Account.* This account is not closed unless it is necessary to transfer the balance to a new page. The balance is entered on the smaller side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the balance is entered with red ink; if closed by a journal entry, it is written with black ink

NOTE. Some accountants advise crediting the Insurance account with the unexpired insurance and debiting the Deferred Charges to Operations account. When this plan is followed, the balance of the Insurance account will show an operating cost. If no special departments are affected, it would be shown as an operating expense on the Profit and Loss statement. This plan is very satisfactory where the expired insurance does not affect a number of operating accounts.

INSURANCE POLICY RECORD.

Monthly Expirations												Amount Carried Forward
Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
2.48	2.48	2.48	2.48	2.48	2.48	2.48	2.48	2.49	2.49	2.49	2.49	
			3.72	3.72	3.72	3.72	3.72	3.72	3.73	3.73	3.73	11.19
				1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.86	7.47
						6.20	6.20	6.21	6.21	6.21	6.21	37.26

Illustration No. 63, Right page of Insurance Policy Record.

BOOKS OF ACCOUNT.

§ 152. **The Books of Account** used in this set consist of the purchases book, sales book, journal, and cash book as books of original entry; the notes payable book, notes receivable book, and check book as auxiliary books; and the ledger as the book of complete entry. A special form of purchases book, sales book, and cash book is used; the journal and ledger are ruled the same as in Part 1.

§ 153. **Purchases Book.** The original invoice provides the most convenient record of a credit purchase. When this plan is followed, the purchases book record may be made by filing the invoices numerically in a binder or by pasting them in a specially prepared blank book; the latter method is used in this set. If filed in a binder, each invoice is numbered consecutively when received and audited. This form is very satisfactory where the Purchases account represents all purchases.

Cash Receipts

April

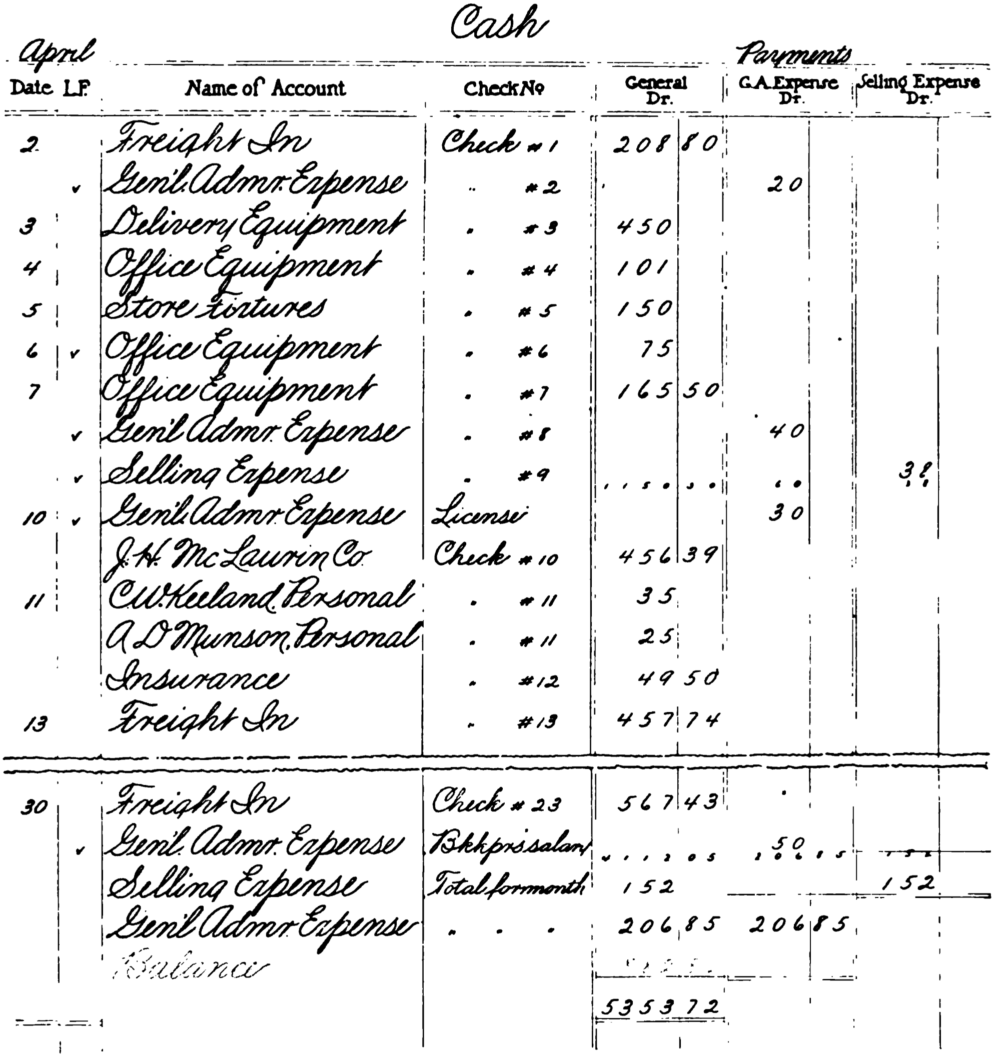
Date	L.F.	Name of Account	Explanation	General Cr.	Sales Cr.	Pur. Disct. Cr.
2		C. W. Keeland, Capital	Investment	1400		
		A. D. Munson, Capital	"	1500		
5	✓	Sales	Cash sales		323 65	
6		J. M. Farris	On account	20		
		Jones Brick Co.	" "	25		
9		Stewart & McCampbell	In full of acct.	53 41		
		A. Scarborough	On account	30		
10	✓	Purchases Discount	J. H. McL. Co.			11 16
12	✓	Sales	Cash sales		190 47	
14		J. L. Luttrell	On account	27 50		
	✓	Purchases Discount	Jellico C. M. Co.			5 58
28	✓	Sales	Cash sales		120 69	
30		A. K. Harper & Co.	In full of acct.	286 39		
		Day Foundry & Mach. Co.	On account	18 45		
		Purchases Discount	Total for month	27 45		27 45
		Sales	" " "	1387 50	1387 50	
				5353 72		

Illustration No. 65, Debit Side of Cash Book, April, Partnership Set.

When separate departments are maintained, a special ruled purchases book is necessary in order to show the proper distribution.

¶ 1. *Posting from the Purchases Book.* Each person or firm from whom merchandise is purchased on account is credited with the amount of the purchase as indicated on the invoice. The posting is indicated by writing the ledger page on the invoice; the invoice number is written in the folio column in the ledger. Special terms are indicated in the explanation column. The address of the creditor should be given in the ledger. The Purchases account is not debited with the amount of each invoice, but with the total credit purchases at the end of the month, or when the Trial Balance is to be taken.

§ **154. Sales Book.** A carbon copy of the bill rendered to a customer provides the most convenient record of credit sales, and is used almost exclusively by business concerns. The original is sent to the customer and the duplicate filed in a binder, the contents of this binder being the sales book record. To avoid the



Cash

April

Payments

Date	L.F.	Name of Account	Check No	General Dr.	G.A. Expense Dr.	Selling Expense Dr.
2		Freight In	Check #1	208 80		
	✓	Gen'l. Admr. Expense	" #2		20	
3		Delivery Equipment	" #3	450		
4		Office Equipment	" #4	101		
5		Store Fixtures	" #5	150		
6	✓	Office Equipment	" #6	75		
7		Office Equipment	" #7	165 50		
	✓	Gen'l. Admr. Expense	" #8		40	
	✓	Selling Expense	" #9			[illegible]
10	✓	Gen'l. Admr. Expense	License		30	
		J. H. McLaurin Co.	Check #10	456 39		
11		C. W. Keeland, Personal	" #11	35		
		A. D. Munson, Personal	" #11	25		
		Insurance	" #12	49 50		
13		Freight In	" #13	457 74		
30		Freight In	Check #23	567 43		
	✓	Gen'l. Admr. Expense	Bkkpr's salary		[illegible]	
		Selling Expense	Total for month	152		152
		Gen'l. Admr. Expense	" " "	206 85	206 85	
		Balance		[illegible]		
				5353 72		

Illustration No. 66, Credit Side of Cash Book, April, Partnership Set.

loss of a bill or duplicate, bills and duplicates should be numbered the same and in consecutive order.

¶ 1. *Cash Sales.* Cash sales are not recorded with the credit sales. In a retail business these are usually taken care of through the cash register record, the total being entered direct in the cash book. In a wholesale business where there are few cash sales, the duplicate of the bill rendered the customer is entered in the sales book and his account charged with this amount; he is credited in the cash book with the cash received. Where the cash sales are numerous, it is best to provide a special binder in which to file them.

¶ 2. *Posting from the Sales Book.* Each person or firm is charged with the amount of his purchase as indicated on the carbon copy of the bill. The number instead of the page in the sales book is indicated in the folio column in the ledger account, and the ledger page is written on the duplicate bill to indicate posting. Special terms are entered in the explanation column of the ledger. The address of the customer is given in the ledger. The Sales account is not credited with the amount of each sale, but with the total of all credit sales at the end of the month or when the Trial Balance is to be taken.

NOTE. Some accountants advise a journal entry for the totals of the purchases and sales books at the end of the month. When this plan is followed, the entry for the total of the purchases book would be Purchases Dr. and Accounts Payable or Purchases Ledger Cr. The entry for the total of the sales book would be Accounts Receivable or Sales Ledger Dr., and Sales Cr. If special ledgers are not kept with customers and creditors, the credit in the first entry and the debit in the second entry are checked. This plan facilitates auditing.

§ 155. ***The Cash Book** is ruled with three money columns on each side as in Illustrations Nos. 65 and 66. The method of recording cash transactions is the same as that followed in the preceding set with the exception of the use of the extra columns. Amounts to be posted to separate accounts in the ledger are entered in the first column on either side; amounts received for cash sales of merchandise, in the second column on the debit side; amounts deducted for prompt payment of invoices, in the third column on the debit side; amounts paid for general administrative expense, in the second column on the credit side, and amounts paid for selling expense, in the third column on the credit side. The purpose of the two special columns on each side is to save time in posting.

¶ 1. *Posting from the Debit Side of the Cash Book.* Each amount entered in the first column is posted to the credit side of the account written on the same line with it. The amounts in the second and third columns are not posted until the end of the month when the total of each column is posted to the credit side of the account indicated at the top.

¶ 2. *Posting from the Credit Side of the Cash Book.* Each amount entered in the first column is posted to the debit side of the account written on the same line with it. The second and third columns are not posted until the end of the month when the total of each column is posted to the debit side of the account indicated at the top.

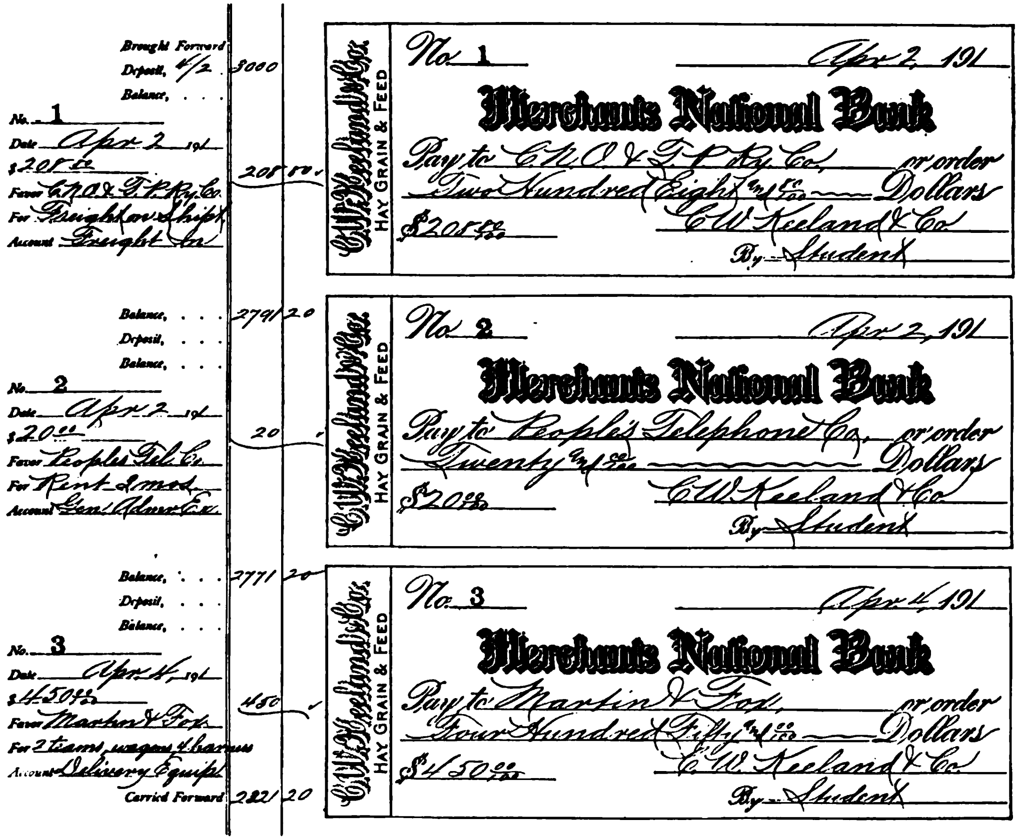
¶ 3. *To Prove Cash.* Foot the three columns on the debit side and place the totals in small pencil figures just beneath the blue line on which the last entry is

*NOTE. The form of cash book described above is not considered the best by some accountants, but is quite popular with many bookkeepers. It affords an accurate check on those transactions in which discount is deducted. By placing the discount deducted on the opposite side, errors made in deducting the discount from the amount of the bill or writing the check will be discovered, because the cash will not prove unless the deductions are correct. An error in adding the discount column will be discovered, because the cash will not prove unless this column is added correctly. One objection offered by accountants is that the net amount of cash received and paid is not shown. To ascertain the amount of cash received, add the totals of the first two columns on the debit side and deduct from this any discount entered on the credit side. To ascertain the amount of cash paid, add the totals of the three columns on the credit side and deduct from this the total of the third column on the debit side. Another form of the cash book in which this objection is overcome will be explained later in this set.

made. The total of each of the three columns is written beneath the same blue line. Foot the three columns on the credit side and place the total of each column just beneath the blue line on which the last entry is made. The total of each column is placed beneath the same blue line. On a piece of scratch paper add the totals of the three columns on the debit side and the totals of the three columns on the credit side. The difference between these two amounts is the amount of cash on hand; this should equal the amount in the bank and in the cash drawer.

§ **156. Auxiliary Books.** The purpose of an auxiliary book is to provide additional information in regard to the transactions which are recorded in a book of original entry. The page of the auxiliary book where this information is provided should be indicated in the book of original entry where the transaction is recorded. The auxiliary books used in this set are the check book, notes receivable book and notes payable book. Other auxiliary books will be illustrated in the succeeding sets.

§ **157. Check Book.** As explained in § 105, banks provide blank checks bound in book form to be used by depositors for withdrawing money on deposit. The check book used in this set is provided with three checks to the page, as shown in Illustration No. 67. The Illustration also shows the method of keeping the bank account.



Brought Forward
Deposit, 4/2 . . . 3000
Balance, . . .
No. 1
Date Apr 2 191
$208 80/100
Favor C.N.O. & T.P. Ry. Co.
For Freight on Ship't
Account Freight In
208 80

No. 1 Apr 2 191
Merchants National Bank
Pay to C.N.O. & T.P. Ry. Co. or order
Two Hundred Eight 80/100 Dollars
$208 80/100
C.W. Keeland & Co
By Student
C.W. Keeland & Co. HAY GRAIN & FEED

Balance, . . . 2791 20
Deposit, . . .
Balance, . . .
No. 2
Date Apr 2 191
$20.00
Favor Peoples Tel. Co.
For Rent 2 mo.
Account Gen'l Admr Ex.
20

No. 2 Apr 2 191
Merchants National Bank
Pay to People's Telephone Co. or order
Twenty 00/100 Dollars
$20.00
C.W. Keeland & Co
By Student
C.W. Keeland & Co. HAY GRAIN & FEED

Balance, . . . 2771 20
Deposit, . . .
Balance, . . .
No. 3
Date Apr 4 191
$450.00
Favor Martin & Fox
For 2 teams, wagons & harness
Account Delivery Equip't
450
Carried Forward 2321 20

No. 3 Apr 4 191
Merchants National Bank
Pay to Martin & Fox, or order
Four Hundred Fifty 00/100 Dollars
$450.00
C.W. Keeland & Co
By Student
C.W. Keeland & Co. HAY GRAIN & FEED

Illustration No. 67, Check Book for Partnership Set.

NOTES RECEIVABLE

Date Received	Our No.	(Draft) (Note) DRAWER OR ENDORSER	(Note) (Draft) MAKER OR DRAWER (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 16	1	Young & Doyle	James B. Ford	Young & Doyle	Merchants Natl Bank
24	2	Lee & Roberts	Moses A. Palmer	Lee & Roberts	Cleveland Natl Bank
30	3		AK Harper & Co	C. W. Keeland & Co	Bank of Maryville
May 11	4		Young & Doyle	C. W. Keeland & Co	Merchants Natl Bank
11	5	C. W. Keeland & Co.	W. H. Ingram	First Natl Bank, Pittsburgh	First Natl Bank

Illustration No. 68, Left Page of Notes Receivable Book.

NOTES PAYABLE

Date Received	Our No	(Draft) (Note) DRAWER OR ENDORSER	(Note) (Draft) MAKER OR DRAWEE (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 6	1		C W Keeland & Co	Hall Safe & Lock Co	Merchants Natl Bank
6	2		. . .	. . .	. . .
10	3	Capital Grain Co	. . .	Third Natl Bank Denver	. . .
19	4	L Fowler	. . .	Merchants Natl Bank	. . .
21	5	J Allen Smith & Co	. . .	. . .	. . .
21	6	Western Hay & Grain Co	. . .	. . .	. . .

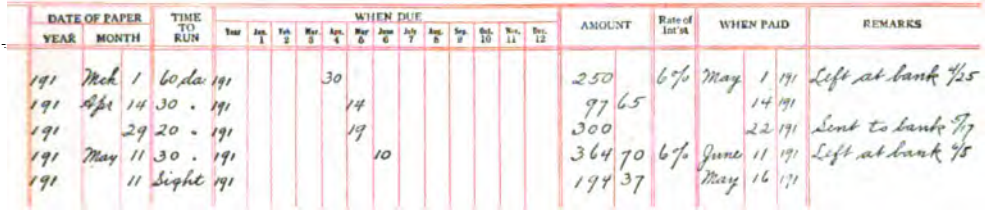
Illustration No. 69, Left Page of Notes Payable Book.

§ 158. **Notes Receivable Book.** This is an auxiliary book in which detailed information relative to notes and acceptances from customers is recorded. This information includes the date, name of the person or firm from whom the note or acceptance is received, the endorser, bank where payable, date of issue, when due, and when paid or discounted. This book is ruled as shown in Illustration No. 68.

¶ 1. *To Audit the Notes Receivable Book.* Each note or acceptance received is entered in the notes receivable book when received; when paid, the date of the payment is entered in the "When Paid" column. The total of the unpaid notes or accepted drafts as indicated by the record in the notes receivable book should be the same as the balance of the Notes Receivable account, also the total of the notes and accepted drafts on hand. When a note or accepted draft is sent to a bank or collection agency for collection, the date and the name of the bank or collection agency is written in the "Remarks" column. The total of these should be included with the value of the notes on hand because they are not paid. Notes discounted at the bank should not be marked paid in the "When Paid" column unless the bank reports payment. The name of the bank and the date of discount should be written in the "Remarks" column. The value of these is not considered in the audit of the notes receivable book unless an account is kept with Notes Receivable Discounted, in which case, the balance of the Notes Receivable Discounted account would equal the total of the notes discounted as shown by the record in the notes receivable book. The record in the notes receivable book should be audited at least once each month.

§ 159. **Notes Payable Book.** This is an auxiliary book in which detailed information relative to notes signed and drafts accepted by the business is recorded. This information includes the date, the person or firm who received the note or acceptance, the bank where payable, date of issue, when due, and when paid. This book is ruled as shown in Illustration No. 69.

NOTES RECEIVABLE



DATE OF PAPER			TIME TO RUN	WHEN DUE													AMOUNT		Rate of Int'st	WHEN PAID			REMARKS
YEAR	MONTH			Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12							
191	Mch	1	60 da.	191				30									250		6%	May	1	191	Left at bank 4/25
191	Apr	14	30 "	191					14								97	65			14	191	
191		29	20 "	191					19								300				22	191	Sent to bank 5/17
191	May	11	30 "	191						10							364	70	6%	June	11	191	Left at bank 6/5
191		11	Sight	191													194	37		May	16	191	

Illustration No. 68, Right Page of Notes Receivable Book.

NOTES PAYABLE

DATE OF PAPER			TIME TO RUN	WHEN DUE													AMOUNT		Rate of Int'st	WHEN PAID			REMARKS
YEAR	MONTH			Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12							
191	Apr.	6	30 da.	191					6								75			May	7	191	
191		6	60 "	191						5							50			June	5	191	
191		7	10 "	191				17									256	01		Apr	18	191	
191		21	30 "	191					21								300			May	21	191	
191		25	30 "	191					25								121	20			25	191	
191		28	3 "	191					1								669	53		May	1	191	

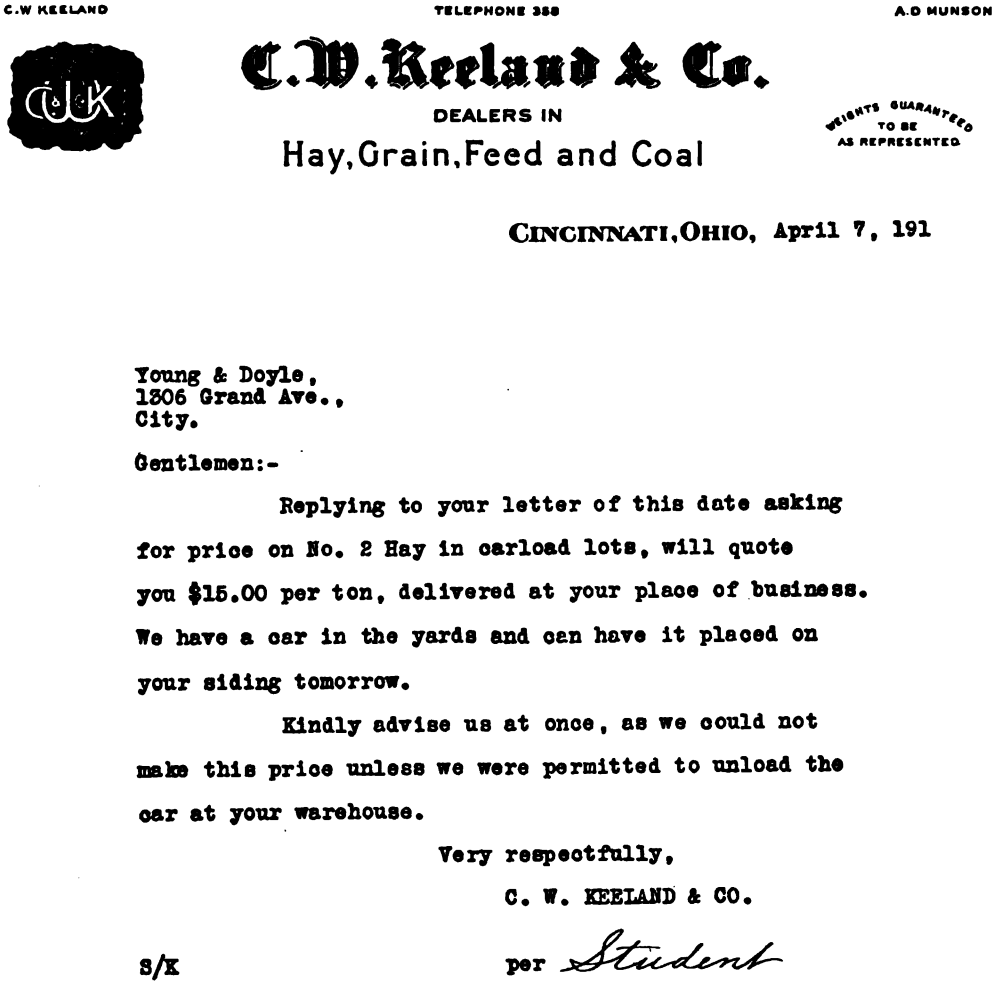
Illustration No. 69, Right Page of Notes Payable Book.

¶ 1. *To Audit the Notes Payable Book.* Each note signed or draft accepted is entered in this book when issued; the payment is indicated in the column provided for this purpose. The total of the unpaid notes as shown by the notes payable book should agree with the balance of the Notes Payable account in the ledger. This audit is usually made once each month.

BUSINESS FORMS.

§ 160. Business Letter. A business letter is a written communication relating to a business transaction, either completed or to be completed. A letter should be mechanically correct in form, brief but explicit, and contain all the required information. The important elements of a business letter are as follows: the date; the name and address of the person to whom the letter is written; the salutation; the body of the letter; the complimentary closing; the signature. The margin at the left and the right will depend upon the length of the letter, but it should not be less than one inch on each side. If the letter requires more than one page, the second page should not begin on the back of the first sheet. A carbon copy of each letter should be retained. It shows ignorance and a lack of business courtesy to answer a business letter on the original letter either on the back or front. See Illustration No. 70 for one form of a business letter.

A business letter may be written with either a pen or typewriter, but should not be written with a pencil. The arrangement of the margin in the illustration is satisfactory for a typewritten letter. For a letter written with a pen, it is customary to allow the line beginning a paragraph the same space as is allowed for the margin, also to leave no blank lines between the name of the person to whom the letter is written and the salutation. The appearance of a business letter is just as important as the personal appearance of a representative. No matter how well a letter may be constructed, if the arrangement is poor, it will have the same attention as a carelessly dressed representative.



C.W KEELAND TELEPHONE 388 A.D MUNSON

C. W. Keeland & Co.

DEALERS IN

Hay, Grain, Feed and Coal

WEIGHTS GUARANTEED TO BE AS REPRESENTED

CINCINNATI, OHIO, April 7, 191

Young & Doyle,
1306 Grand Ave.,
City.

Gentlemen:-

Replying to your letter of this date asking for price on No. 2 Hay in carload lots, will quote you $15.00 per ton, delivered at your place of business. We have a car in the yards and can have it placed on your siding tomorrow.

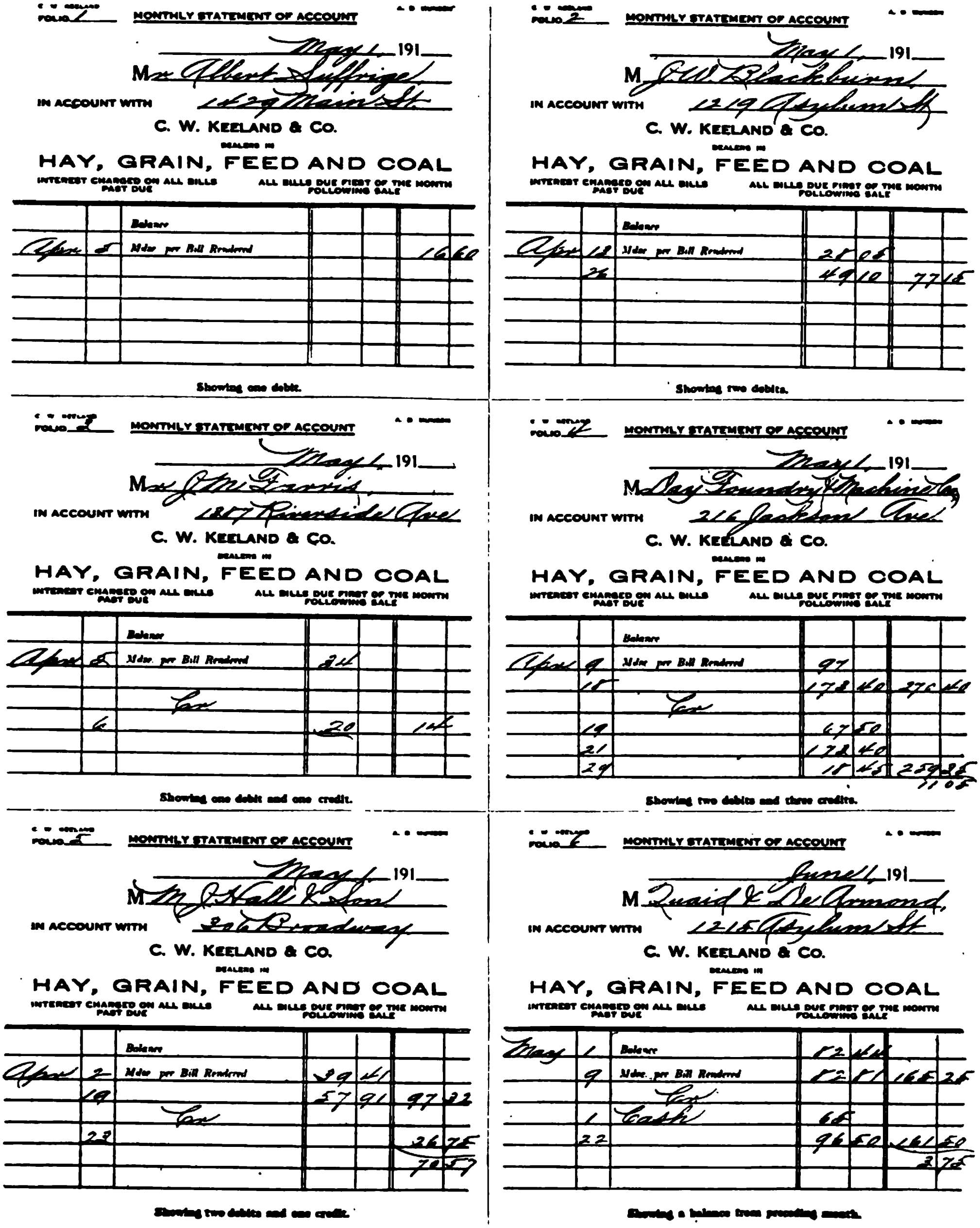
Kindly advise us at once, as we could not make this price unless we were permitted to unload the car at your warehouse.

Very respectfully,
C. W. KEELAND & CO.

S/K per Student

Illustration No. 70, Business Letter.

§ 161. **A Statement of Account.** This is a copy of a personal account as it appears on the ledger. It is customary to render a statement on the first of each month. This shows the balance at the beginning of the month, each bill rendered during the month, each credit for cash or other property accepted on account, and the balance due. The statement should show the date of each bill rendered and any special terms indicated on it. The balance as shown by the statement should be the same as the balance of the account in the ledger. The efficient bookkeeper will check these balances with those used in his Trial Balance before mailing the statements. See Illustration No. 71.



C. W. KEELAND
FOLIO 1 MONTHLY STATEMENT OF ACCOUNT

May 1, 191

Mr Albert Suffrige
IN ACCOUNT WITH 1429 Main St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	5	Mdse per Bill Rendered			16	60

Showing one debit.

C. W. KEELAND
FOLIO 2 MONTHLY STATEMENT OF ACCOUNT

May 1, 191

M J. W. Blackburn
IN ACCOUNT WITH 1219 Asylum St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	12	Mdse per Bill Rendered	28	05		
	26		49	10	77	15

Showing two debits.

C. W. KEELAND
FOLIO 3 MONTHLY STATEMENT OF ACCOUNT

May 1, 191

Mr J. M. Farris
IN ACCOUNT WITH 1807 Riverside Ave

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	5	Mdse. per Bill Rendered	34			
		Cr				
	6		20		14	

Showing one debit and one credit.

C. W. KEELAND
FOLIO 4 MONTHLY STATEMENT OF ACCOUNT

May 1, 191

M Bay Foundry & Machine Co.
IN ACCOUNT WITH 216 Jackson Ave.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	9	Mdse per Bill Rendered	97			
	15		178	40	275	40
		Cr				
	19		67	50		
	21		172	40		
	29		18	45	258	35
					11	05

Showing two debits and three credits.

C. W. KEELAND
FOLIO 5 MONTHLY STATEMENT OF ACCOUNT

May 1, 191

M M. J. Hall & Son
IN ACCOUNT WITH 206 Broadway

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	2	Mdse per Bill Rendered	39	41		
	19		57	91	97	32
		Cr				
	22				26	75
					70	57

Showing two debits and one credit.

C. W. KEELAND
FOLIO 6 MONTHLY STATEMENT OF ACCOUNT

June 1, 191

M Quaid & DeArmond,
IN ACCOUNT WITH 1215 Asylum St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE
ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

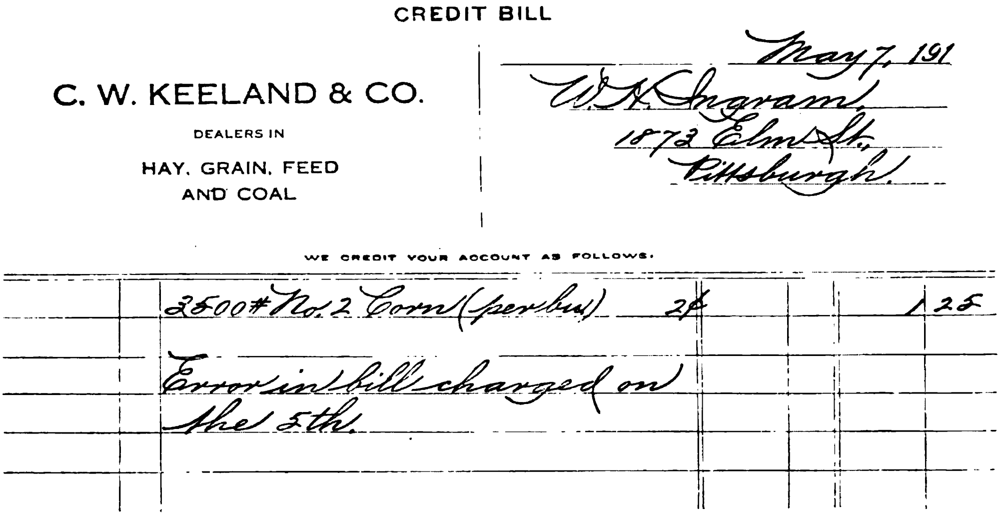
May	1	Balance	82	44		
	9	Mdse. per Bill Rendered	82	81	165	25
		Cr				
	1	Cash	65			
	22		96	50	161	50
					3	75

Showing a balance from preceding month.

Illustration No. 71, Statements of Accounts.

EXPLANATION. The statement of a customer's account, when presented to him, should be made out in correct form. The above illustration shows the forms used when the account has only one debit, two debits, one debit and one credit, two debits and three credits, two debits and one credit, and when there is a balance from the preceding month. Statements paid in full should be receipted by the name of the firm and that of the person who received the money; partial payments should be indicated only by the date and amount similar to the credits in the statements in the illustration.

§ **162. Credit Bill.** This is a statement sent by the buyer to the seller showing that his account has been credited for the items described therein. A credit bill may be rendered for cash received, rebates allowed for damaged goods, errors in extensions of bills, etc. The form is similar to that of an invoice or bill. It is customary to print the credit bill with a different colored ink or on a different colored paper from that of the bill to distinguish between them. See Illustration No. 72.



CREDIT BILL

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED
AND COAL

May 7, 191
W. H. Ingram,
1873 Elm St.,
Pittsburgh.

WE CREDIT YOUR ACCOUNT AS FOLLOWS.

		2500# No. 2 Corn (per bu) 2¢			1	25
		Error in bill charged on				
		the 5th.				

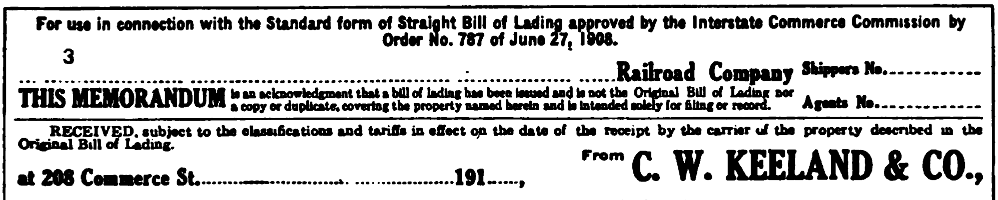
Illustration No. 72, Credit Bill.

§ **163. Bill of Lading.** This is a receipt issued by a transportation company for property received for shipment. There are two forms of bills of lading, straight and order. These are issued by steam and electric railroads, express, and steamship companies. Bills of lading are made in triplicate and are supplied to the shipper by the transportation company, unless he wishes to use a special form. The form issued by a transportation company doing an interstate business is governed by a ruling of the Interstate Commerce Commission. If the shipper provides his own bill of lading it must conform with this form. By using two sheets of carbon paper the triplicate form can be made with one writing. One copy is retained by the transportation company, one by the shipper and the other is sent to the consignee.

The form of the bill of lading required by the Interstate Commerce Commission must be 8½ inches wide and 7 inches long or 8½ inches wide and 11 inches long. A different color may be used for each copy of the triplicate form, but it is left to the shipper as to whether he uses one or more colors.

The above discussion relates to the straight bill of lading which is issued for all shipments that are not to be paid for before delivery. The "order" bill of lading will be discussed later.

§ **164. Telegram.** A telegram is a communication or message sent by means of a telegraph company. There are two leading companies in the United States, The Postal Telegraph Cable Co., and the Western Union Telegraph Co. The charge for a message is based on the distance, the number of words in the message, and the time of sending it.



For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

3

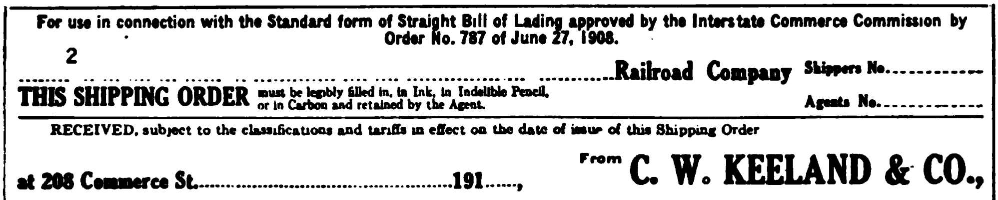
.... **Railroad Company** **Shippers No.**............

THIS MEMORANDUM is an acknowledgment that a bill of lading has been issued and is not the Original Bill of Lading nor a copy or duplicate, covering the property named herein and is intended solely for filing or record. **Agents No.**............

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading.

at 208 Commerce St.............**191**....., From **C. W. KEELAND & CO.,**

Illustration No. 73, Third Form of Bill of Lading.



For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

2

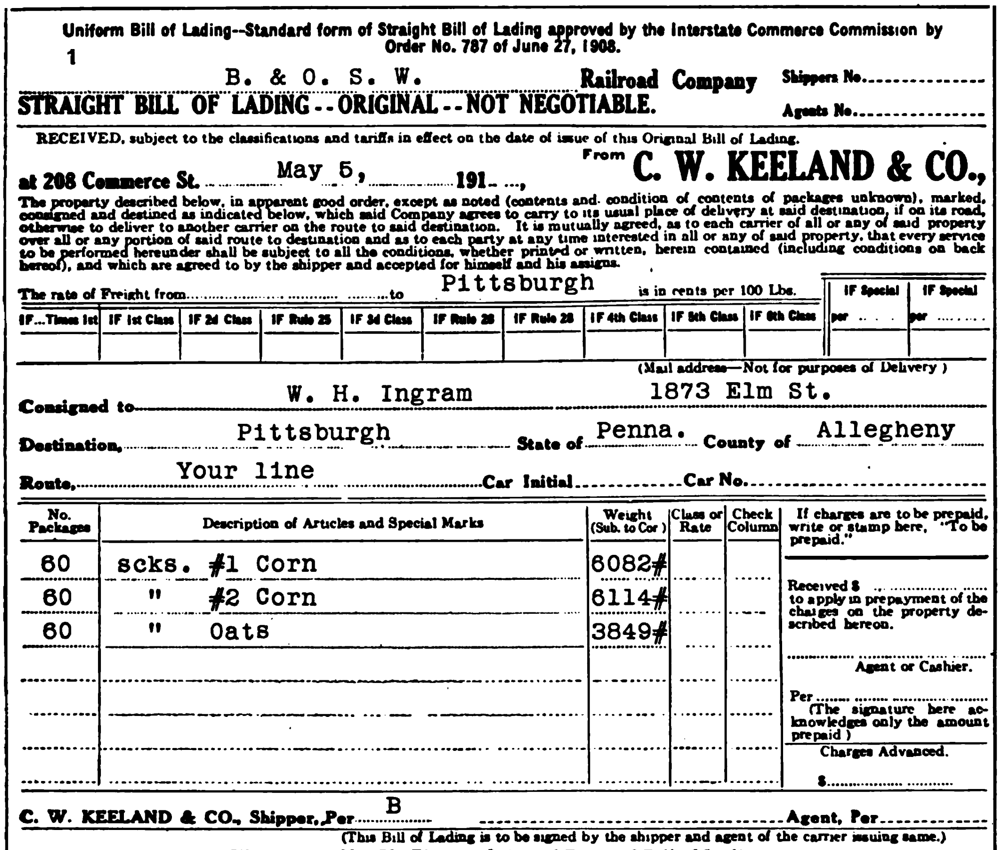
.... **Railroad Company** **Shippers No.**............

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon and retained by the Agent. **Agents No.**............

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order

at 208 Commerce St.............**191**......, From **C. W. KEELAND & CO.,**

Illustration No. 73, Second Form of Bill of Lading.



Uniform Bill of Lading--Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

1

B. & O. S. W. **Railroad Company** **Shippers No.**............

STRAIGHT BILL OF LADING--ORIGINAL--NOT NEGOTIABLE. **Agents No.**............

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

at 208 Commerce St. May 5, **191**- ..., From **C. W. KEELAND & CO.,**

The property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof), and which are agreed to by the shipper and accepted for himself and his assigns.

The rate of Freight from .... to Pittsburgh is in cents per 100 Lbs.

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per	IF Special per .....

(Mail address—Not for purposes of Delivery)

Consigned to W. H. Ingram 1873 Elm St.

Destination, Pittsburgh **State of** Penna. **County of** Allegheny

Route, Your line **Car Initial**............ **Car No.**............

No. Packages	Description of Articles and Special Marks	Weight (Sub. to Cor.)	Class or Rate	Check Column
60	scks. #1 Corn	6082#		
60	" #2 Corn	6114#		
60	" Oats	3849#		

If charges are to be prepaid, write or stamp here, "To be prepaid."

Received $ .... to apply in prepayment of the charges on the property described hereon.

.... Agent or Cashier.

Per .... (The signature here acknowledges only the amount prepaid)

Charges Advanced.

$............

C. W. KEELAND & CO., Shipper, Per B .... **Agent, Per**............

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

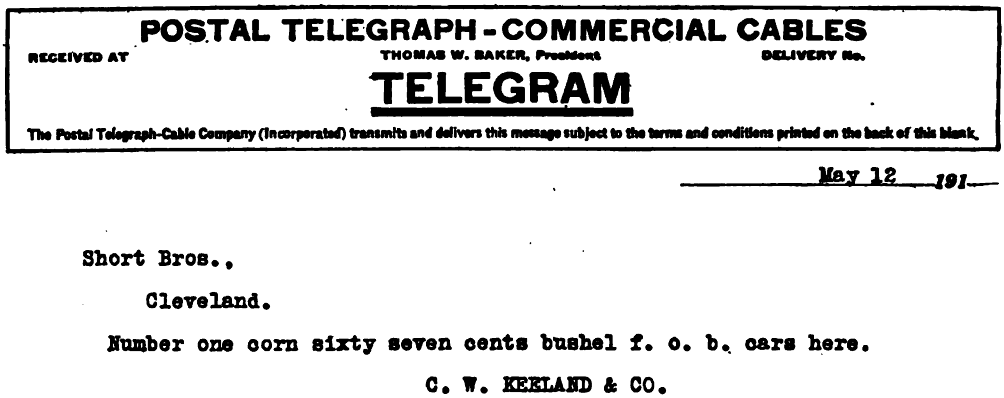
Illustration No. 73, First or Original Form of Bill of Lading.

NOTE—That part of forms 2 and 3, not shown, is the same as the lower part of the illustration of first or original form.

Illustration No. 73, Original Bill of Lading and the two Copies.

There are four classes of telegrams—the fast day message, day letter, night message, and night letter.

¶ 1. *The Fast Day Message* is one on which the charge is based on ten words, and is accepted by the telegraph company to be sent as soon as received and delivered at its destination as soon as received. A fixed rate is charged for each word in excess of ten.



POSTAL TELEGRAPH - COMMERCIAL CABLES

RECEIVED AT　THOMAS W. BAKER, President　DELIVERY No.

TELEGRAM

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

May 12 191

Short Bros.,

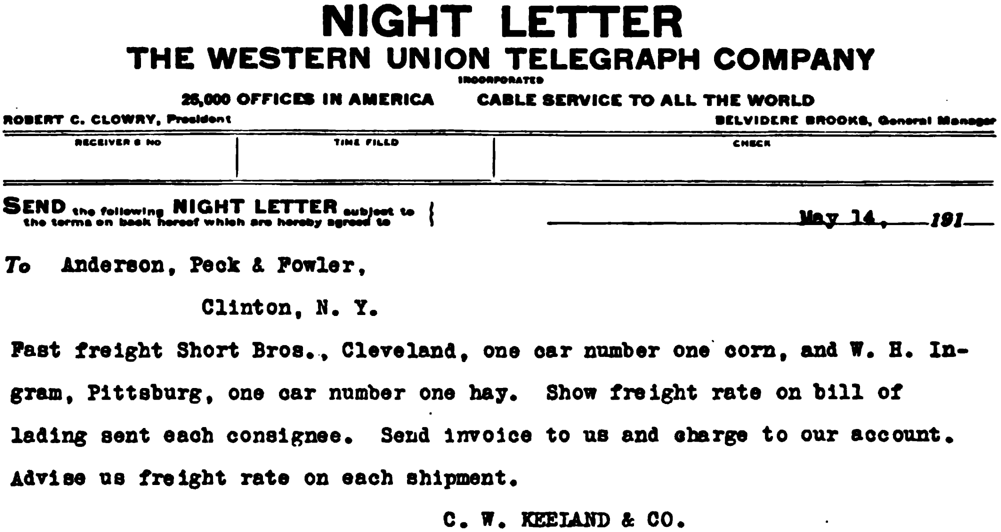
Cleveland.

Number one corn sixty seven cents bushel f. o. b. cars here.

C. W. KEELAND & CO.

Illustration No. 74, Fast Day Message, ¶ 1.

¶ 2. *A Day Letter* is a message on which the charge is based on fifty words and is accepted by the telegraph company to be sent some time during the day and delivered when received at its destination. Fast day messages take precedence over day letters both in the sending and the delivering. A fixed rate is charged for each word in excess of fifty.



NIGHT LETTER

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED

25,000 OFFICES IN AMERICA　CABLE SERVICE TO ALL THE WORLD

ROBERT C. CLOWRY, President　BELVIDERE BROOKS, General Manager

RECEIVER'S NO	TIME FILED	CHECK

SEND the following NIGHT LETTER subject to the terms on back hereof which are hereby agreed to

May 14, 191

To Anderson, Peck & Fowler,

Clinton, N. Y.

Fast freight Short Bros., Cleveland, one car number one corn, and W. H. Ingram, Pittsburg, one car number one hay. Show freight rate on bill of lading sent each consignee. Send invoice to us and charge to our account. Advise us freight rate on each shipment.

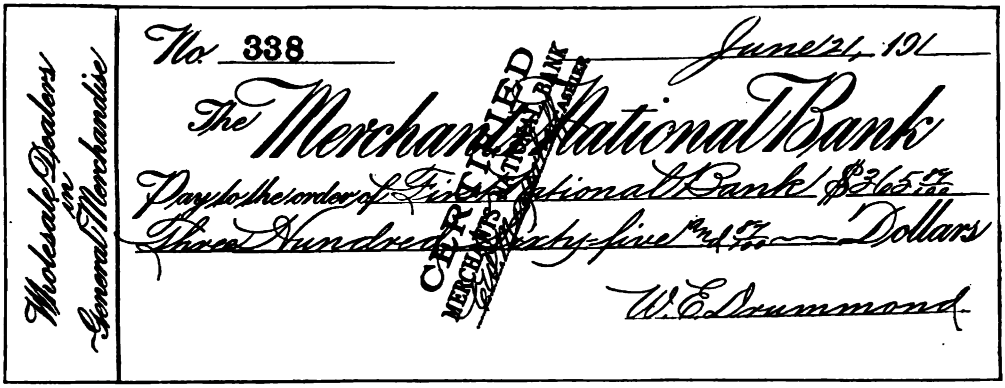
C. W. KEELAND & CO.

Illustration No. 75, Night Letter, ¶ 4.

¶ 3. *A Night Message* is one on which the charge is based on ten words, and is accepted by the telegraph company to be sent during the night and delivered the next morning. The charge is less than that for the fast day message, with a fixed charge for each word in excess of ten.

¶ 4. *A Night Letter* is a message on which the charge is based on fifty words, and is accepted by the telegraph company to be sent during the night and delivered the next morning. The charge is the same as that for the fast day message, with an extra charge for each word in excess of fifty.

§ 165. **A Certified Check** is a personal check guaranteed by the bank on which it is drawn. It is certified by writing or stamping across the face the word "Certified" together with the name of the bank and the signature of the cashier or other official authorized to make certification. Certification may be required by the drawer or the holder. Checks are certified to prevent the drawer from withdrawing the funds on deposit before the check is presented. When the bank certifies a check it becomes responsible for its payment. For this reason it is at once charged to the depositor's account.



Wholesale Dealers
in
General Merchandise

No. 338

June 21, 191

The Merchants National Bank

Pay to the order of First National Bank $365 07/100

Three Hundred Sixty-five and 07/100 Dollars

W. E. Drummond

CERTIFIED
MERCHANTS NATIONAL BANK
CASHIER

Illustration No. 76, Certified Check.

GENERAL INFORMATION.

§ 166. **Terms on Bills.** These indicate special information in regard to the time of payment and the discount to be deducted. "2/10, n/30" indicates that, if payment is made within 10 days, a discount of 2% may be deducted. If payment is made after that time, no discount will be allowed and the invoice is past due after the expiration of 30 days. "October 1, 3/30, n/60" indicates that if payment is made within 30 days from October 1, a discount of 3% may be deducted, but no discount is to be deducted if payment is made after that time and the invoice is past due after the expiration of 60 days.

§ 167. **Part Payment of Invoices or Bills Subject to a Discount.** It is not necessary to pay the full amount of an invoice or bill within the discount period in order to secure a discount on the payment. If a part payment is made, it is necessary to divide the amount of the payment by one hundred less the rate of discount in order to ascertain the value of the payment. If the face of the invoice is $200.00 and the rate of discount 3%, it would require $194.00 for full payment within the discount period. The amount of cash ($194.00) is not used in calculating the discount, which is calculated on the amount of the indebtedness

($2,00.00). When only a part payment is made, the amount of the cash is divided by 100 minus the rate in order to ascertain the value of the debit or credit resulting from the payment. The reason for this is because it is a percentage problem in which the difference (base minus the rate) and the rate are given and the base is required. The result of this division is the base; the difference between the base and the amount of the payment is the discount.

Example: $190.00 is received as part payment of a sale which was subject to a 5% discount—$190.00 ÷ .95 (100—.05) = $200.00. The customer is credited with $200.00 and Sales Discount debited with $10.00. We send a check for $500.00 as part payment of an invoice subject to a 3% discount—$500.00 ÷ .97 (100—.03) = $515.46. We charge the creditor with $515.46 and credit Purchases Discount with $15.46.

Exercises in Receipts and Payments, Less Discount, in Full and in Part.

Make the required entries in the cash book for the following exercises. Use the inside of a double sheet of journal paper and write the debit entries on the left, and the credit entries on the right. (§ 167.)

Exercise No. 67.

1. January 9th, bought of L. H. Mabley, 3/10—n/30, $162.95. Paid this amount in full by check. January 18th. (Make the entry for the payment, but not for the purchase.)

2. February 5th, sold M. D. Puterbaugh, 4/10—n/30, $429.86. Received a check in payment of this on the 14th.

3. May 27th, bought from Union Mfg. Co., 3/10—n/60, $529.48. Paid June 5th.

4. March 4th, bought of Anderson & Mumford, 5/10, 3/30—n/60, $1,642.87. Made payments as follows: March 12th, $950.00; March 25th, $291.00; March 31st, $97.00; April 2d, $97.00; May 1st, the balance.

5. July 16th, sold F. W. Ellis, 3/10, 2/30—n/60, $1,262.48; July 25th, received a check for $485.00; August 9th, $196.00; August 14th, $392.00; September 1st, $100.00; September 15th, the balance.

6. August 10th, bought of Davis Bros., 6/10, 5/30, 3/60—n/90, $2,992.50. Made payments as follows: August 19th, $1,500.00; August 31st, $500.00; September 30th, $400.00; October 9th, $100.00; December 1st, the balance.

7. July 3d, sold C. E. Huff, 5/10, 3/30, 2/60—n/90, $2,556.98. Received payments as follows: July 12th, $1,200.00; July 31st, $500.00; August 26th, $400.00; September 2d, $100.00; October 1st, $100.00; November 1st, the balance.

8. November 16th, bought from Cecil Bros., 3/10—n/30, $526.49. Paid, November 24th.

9. April 10th, sold J. T. Wissell, 4/10—n/60, $397.62. Received check in full, April 20th.

10. September 14th, bought from R. N. Gardner, 2/30—n/60, $629.07. Paid, October 12th.

11. October 11th, sold J. H. Schulmann, 4/10, 3/30, 1/60—n/90, $729.62. Received payment as follows: October 18th, $300.00; November 8th, $250.00; December 6th, $100.00; January 1st, the balance.

12. May 24th, bought of George Wolf & Sons, 7/10, 5/30, 3/60, 2/90—n/120, $4,782.63. Paid as follows: June 3d, $2,000.00; June 23d, $200.00; July 20th, $250.00; August 20th, $100.00; September 1st, $100.00; October 1st, the balance.

§ 168. **Collecting Notes and Drafts.** Collection may be made at the office of the holder, or through the bank at which the holder does business, the bank at which the maker does business, or any bank designated by the holder. The endorsement on a note or draft sent for collection should be "Pay to the order of (the name of the bank to make the collection) for collection and remittance," or "Pay to the order of (name of bank) for collection and credit." The former endorsement indicates that the holder wishes remittance for the collection and the latter that he wishes it placed to his credit. The former is used when the note is sent to a bank other than that at which the holder does business, and the latter when sent to his bank. If the words "For collection" are omitted the collection agency might use the paper for its own benefit.

§ 169. **How to Correct Errors.** Errors should not be made, but if made must be corrected. When possible an error should be corrected by an entry in the journal. If this can not be done, a single red line should be drawn through the amount only, and the correct amount written just above. Never draw the red line through the date, name of the account, or explanation. Do not erase either in the book of original entry or complete entry.

§ 170. **Exchange.** Exchange is a sight draft drawn by one bank on another bank. Exchange takes its name from the city in which the bank that is to pay the draft is located. A draft on a bank in New York is termed New York Exchange; on a bank in Chicago, Chicago Exchange; on a bank in New Orleans, New Orleans Exchange, etc. When the bank on which the draft is drawn is located in the same country, it is designated as "Domestic Exchange;" when in a foreign country, "Foreign Exchange." Domestic Exchange is represented by one draft; Foreign Exchange may be represented by one draft or three, each being sent by a separate route, the one received first being honored, and the others dishonored.

§ 171, **Arrangement of Accounts in the Ledger.** If the volume of business is large, it is better to keep three separate ledgers, one for the general accounts, one for accounts with creditors, and one for accounts with customers. If only one ledger is used, this should be divided into three parts, and the three classes of accounts mentioned above kept in separate parts of the ledger. In such a case it is better to reserve the first part of the ledger for the general accounts, the second part for accounts with creditors, and the third part for accounts with customers. The division of the ledger into sections applies to either a loose leaf or bound ledger. This division requires less time for posting, checking statements received from creditors and rendering statements to customers.

§ 172. **Index to Ledger.** The object of the index is to facilitate finding an account in the ledger. The space for the index is usually the first few pages of the ledger, but a special book may be used if there are a number of accounts. The pages for the index are special ruled and arranged to contain the name of the accounts in alphabetical order. All personal accounts should be written with the surname first and the initials following. The page should be written at the extreme right of the space reserved for the index and on the same line with the account; if the account is forwarded, the new page is written just to the left of the old page.

NOTE. In loose leaf ledgers there is no index; the sheets which contain the accounts are arranged in the ledger in alphabetical order, and are separated by division sheets, having tabs on the edge to facilitate locating the accounts.

§ 173. **Rules for Taking a Trial Balance and for Detecting Errors when it does not Balance.** The student, as well as the bookkeeper, often dreads the Trial Balance, the reason being that it is *this* which tests his accuracy. As a rule, the bookkeeper or student who begins with the expectation of having trouble in making the Trial Balance is sure not to be disappointed. It requires confidence in one's ability to succeed in anything, and the bookkeeper who has confidence in his ability to keep a set of books and take a Trial Balance will seldom have trouble in getting it to balance. It requires only a few moments' time to prove the correctness of each entry, posting, addition or subtraction. The trouble with the average student is that he does not appreciate the importance of this, and trusts too much to luck, hence, spends more time in finding his errors than he does in recording the transactions. The old adage, "Be sure you are right, and then go ahead," is very applicable to the work of the bookkeeper, and the student who can realize the importance of this will never have trouble with any of his work, and especially the Trial Balance.

Since many mistakes are made in taking the Trial Balance, a few rules are given for detecting errors. These rules should be observed and followed in the order given.

¶ 1. *Check the Posting* and audit the addition of each account which has been ruled. (§ 61.)

¶ 2. *After the Checking has been Completed*, glance over the books of original entry and the ledger, tracing any item that is not checked. If the check marks are all on the same vertical line in the books of original entry and the ledger, it will facilitate detecting errors.

¶ 3. *Do Not Accept One Addition* of the sales book and purchases book, as errors are often made in addition. If the instructions in ¶ 1 have been followed, the addition of each page will have been proved. Unless each entry in the journal, which has more than one debit or credit, is proved by footing with pencil, it is better to add each page in the journal and prove that the total debits equal the total credits.

¶ 4. *After all the Postings have been Checked*, the accounts in the ledger footed, and the balance of the personal accounts entered, begin at the first part of the ledger and check all of the work again.

¶ 5. *After the Accounts have been Transferred* to the Trial Balance, check the amounts with the ledger. This will avoid possible errors in entering the amounts from the ledger.

¶ 6. *Verify the Addition of Each Side* of the Trial Balance as it is added. If the credit side is added first, then verify the addition of this side before adding the debit side. It might be possible to make a corresponding error in adding each side, and thus have a Trial Balance which, on its face, is in balance, but in reality is out of balance. This means trouble with the next Trial Balance.

If the above instructions are followed in taking each Trial Balance, reference will seldom be made to the following information relative to detecting errors in it. If it does not balance, and all of the rules outlined above have been applied, note the following:

¶ 7. *Ascertain the Amount of the Error*, then look over the Trial Balance, ledger, and books of original entry for an amount equal to this, or one-half of it. If there is an amount equal to the error, check the posting of such an amount. If an amount is half of the error, and posted to the wrong side of an account, it will make the same difference as the amount of the error.

¶ 8. *If the Amount of the Error is Divisible by 9*, it is possible that the error is caused by transposed figures. Unless the error is divisible by 9, it could not be caused by a transposition. The following explains the effect of transposed figures on the Trial Balance.

Any number composed of two figures, the difference of which is the same as the result of dividing the error by 9, when transposed will give the amount of the error.

Example: Suppose the Trial Balance is out 45c; divide this by 9, and the result is 5. Any number composed of two figures, the difference of which is 5, will, when transposed, cause an error of 45c; the difference between 0 and 5 is 5. 05 posted as 50 makes an error of 45c; the difference between 1 and 6 is 5; 16 posted as 61 makes an error of 45c, or 61 posted as 16 makes the same error. In the same way 27, 38, 49, 50, 61, 72, 83 or 94, when transposed will make an error of 45c; thus to find this error of 45c, you will trace the posting of any of these amounts and see that they have not been transposed. The same principle applies with any other error divisible by 9.

¶ 9. *Again Check the Additions and Subtractions* in the ledger. Inspect each account that has been ruled and prove that it is in balance above the ruling.

¶ 10. *Check the Amounts Entered* on the Trial Balance with the ledger accounts. Always use check marks to indicate checking, as there is little use in checking unless this is done.

¶ 11. *Verify the Total of the Sales Book*, purchases book, and debit and credit columns of the journal.

¶ 12. *Unless the Pass Book has been Written up* by the bank, and the balance verified with the cash balance and balance shown on the check stub, verify the cash balance. The fact that the cash proves is not absolute evidence that there is not an error. This is especially true, if the Trial Balance is off one cent, ten cents, one dollar, ten dollars, one hundred dollars, etc.

¶ 13. *Check all the Postings again* and indicate this by check marks on a different vertical line from that used with the previous checkings.

The above instructions are given in the order of their importance and should be followed as given, as the error may be discovered before it is necessary to use all of them.

§ 174. **Admitting a Partner.** When a partner is admitted to a going concern (one actively engaged in business), it is usually necessary to close the books and ascertain the present worth of the business. By special agreement with the incoming partner this might be omitted, but it is not the best policy, as the new partner should know the present condition of the business. The value of the fixed assets, accounts due the business, notes due the business, merchandise in stock, and other property must be agreed upon by the present owners and the partner who is to be admitted. The bookkeeper makes his entries and statements from these facts. He should have written instructions in regard to these entries signed by each partner or have the entries affected by the agreement approved by the signature of the partners.

QUESTIONS.

1. Name the six classes of accounts used in this set. (§ 127.)
2. Distinguish between the Partner's Capital account and his Personal account. (§§ 129 and 130.)
3. Describe briefly the two methods of keeping accounts with the property purchased for use in the business. (§§ 131, ¶ 2.)
4. Name the fixed asset accounts in this set. (§§ 132, 134 and 136.)
5. Name the valuation accounts in connection with these. (§§ 133, 135, 137.)
6. Name the accounts used in recording transactions affecting the purchase and sale of merchandise. (§§ 139-146.)
7. State the object of each. Why are these accounts necessary?
8. Why are they referred to as trading accounts?
9. Why is an account kept with Sales Rebates and Allowances? (§ 142.)
10. What is the purpose of merchandise discount? (§ 144.)
11. Name the two expense accounts in this set and state the object of each.
12. Why is it advisable to keep a record of the insurance policies? (§ 150, ¶ 1.)
13. What is the object of the Insurance account? (§ 151.)

14. Name the books of original entry used in this set. (§ 152.)
15. What is the most convenient record of a credit purchase? (§ 153.)
16. What is the most convenient record of a credit sale? (§ 154.)
17. State the purpose of the three columns on the debit and three columns on the credit side of the cash book. (§ 155.)
18. Name the auxiliary books used in this set. (§ 156.)
19. What is the object of the check book? (§ 157.)
20. What is the object of the notes receivable and notes payable books? (§§ 158 and 159.)
21. What is a business letter? (§ 160.)
22. What is a statement of account and when are they sent? (§ 161.)
23. What is the object of a credit bill? (§ 162.)
24. Why are bills of lading made in triplicate? (§ 163.)
25. Distinguish between a fast day message, a day letter, a night message, and a night letter. (§ 164, ¶¶ 1-4.)
26. Why and how is a check certified? (§ 165.)
27. Define the terms "3/10, n/30." (§ 166.)
28. If a payment of $150.00 is made to apply on account of a bill subject to 3% discount, with what amount is the account credited? (§ 167.)
29. What is the endorsement on a note held by John Smith and to be sent to the First National Bank at Chicago for collection? (§ 168.)
30. How is an error corrected? (§ 169.)
31. Define Exchange. (§ 170.)
32. Why are accounts in the ledger indexed? (§ 172.)
33. How would you proceed to locate an error in the Trial Balance? (§ 173.)

ACCRUALS AND DEFERRED ITEMS.

§ 175. **At the close of the fiscal period** there are certain items that do not appear on the ledger which must be considered in order to obtain a true statement of the financial condition of the business. There may be a number of items not shown on the books which are rightfully considered as assets or liabilities, and there may also be nominal accounts on the ledger, part or all of which do not represent expenses or profits. The items which must be considered at this time may be classified under the following heads: first, accrued assets not due; second, accrued liabilities not due; third, deferred charges to operations; fourth, deferred credits to income.

§ 176. **Accrued Assets.** Income may be earned in one fiscal period, but not due and payable until a subsequent period. Accurate accounting demands that each period be given credit for the income earned during that period whether it is collected then or later. To illustrate: On July 1st, $1,000.00 is loaned by the business for one year at 6% interest, payable at maturity. On December 31st one-half of this interest has been earned, that is, one-half of the service (use of the money) for which the interest is to be received has been performed. If the books are closed at this time (December 31st) one-half of the interest, or $30.00, should appear on the Balance Sheet, as an accrued asset, or it may be termed accrued income not due, if preferred. Amounts accrued but not yet due for rent, royalties or any service rendered to others should be treated as accrued assets and be shown on the Balance Sheet among the current assets.

§ 177. **Accrued Liabilities.** In the same manner that the records should show at the end of the fiscal period all the income earned during that period, they should also show a liability for all services which have been received during the period whether it is due or not. To illustrate: If the books are closed on July 1st and the taxes for the current year, amounting to $100.00, are not due until January 1st, one-half of this amount, or $50.00, should appear on the Balance Sheet as an accrued liability. Wages, royalties and interest are other items which are frequently accrued at the time the books are closed.

§ 178. **Deferred Charges to Operations.** These are expenses incurred in one fiscal period but chargeable in part to a subsequent period. To illustrate: If $100.00 is paid for office stationery, and when the books are closed only one-half of this has been used, the remaining half or $50.00 should appear on the Balance Sheet as a deferred charge to operations and be charged to the expenses of the following period. Unexpired insurance, interest paid in advance, rent paid in advance, and repairs on leased property are other illustrations of deferred charges.

§ 179. **Deferred Credits to Income.** These are credits to income which are not all earned in the fiscal period in which they originate and for which the subsequent period may have to perform some service before it obtains its share of the profit represented by the item. This service may involve the incurring of some expense during the subsequent period or it may involve the element of time only. To illustrate: If $1,000.00 is loaned on January 1st at 6%, interest payable in advance, only one-half of this interest or $30.00 should be treated as income if the books are closed on July 1st. The remaining $30.00 should be carried forward as a deferred credit to income and appear as such on the Balance Sheet. In the case of a newspaper where subscriptions and advertising are paid for in advance, this would be an important item at the time of the close of a fiscal period. Professional fees received in advance should be treated in the same manner.

§ **180. Sundry Resource and Sundry Liability Inventories.** Sometimes the items mentioned above are treated as inventories, the debit items being carried to an account known as Sundry Resource Inventories and the credit items, to an account known as Sundry Liability Inventories, and shown under these captions on the Balance Sheet. Although this plan may be followed, if desired, it does not show the real condition of the business since items of an entirely different nature are classed together in one account. Deferred charges to operations will ultimately be charged off as an expense or loss while accrued assets not due are current assets. When these two items are classed together under the head of Sundry Resource Inventories, their true nature is not shown. The same is true of the credit items when they are classed under the head of Sundry Liability Inventories. For this reason it is the better practice to keep separate accounts as discussed in §§ 175-179 and outlined in the following pages.

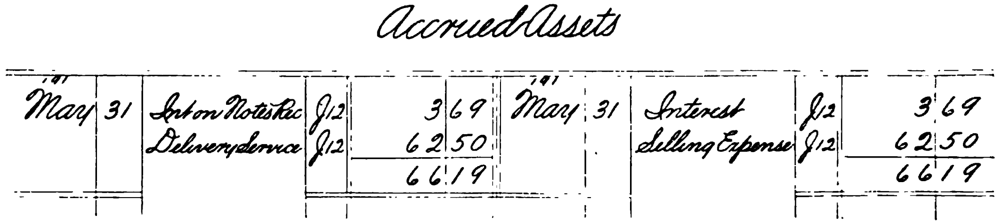
ACCRUED ASSETS ACCOUNT.

§ **181. The Object of this Account** is to show the amount accrued but not yet due for services rendered by the business to others. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Accrued Assets Account:	*Credit the Accrued Assets Account:*
¶ 1. For the amount accrued but not yet due for services rendered by the business such as, accrued interest, and royalties. The name of each service account is written in the explanation column on the same line with the amount.	¶ 2. This account is not credited until it is closed, when it is credited as explained in ¶ 4.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount accrued but not yet due the business for services rendered. It is shown as a current asset on the Balance Sheet.

¶ 4. *To Close the Accrued Assets Account.* This account is closed by a journal entry after all the other accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The name of each service account affected is written in the explanation column on the credit side in the same order as they appear on the debit side. The account is ruled with single and double red lines and footed with black ink.



Accrued Assets

191 May	31	Int on Notes Rec	J12	3	69	191 May	31	Interest	J12	3	69
		Delivery Service	J12	62	50			Selling Expense	J12	62	50
				66	19					66	19

Illustration No. 77, Accrued Assets Account.

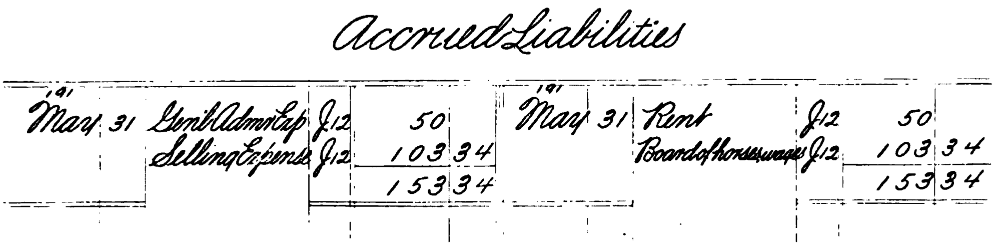
ACCRUED LIABILITIES ACCOUNT.

§ 182. **The Object of this Account** is to show the liabilities accrued, but not yet due, for services rendered to the business. These include interest owed on outstanding notes and accounts, taxes accrued but not paid, salaries and wages of employees accrued but not paid, and other unpaid obligations not shown by an account in the ledger. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Accrued Liabilities Account:	*Credit Accrued Liabilities Account:*
¶ 1. This account is not debited until it is closed, when it is debited as explained in ¶ 4.	¶ 2. For the amount accrued but not yet due for services rendered to the business, such as, accrued interest, taxes, wages, rent, and insurance. The name of each service account is written in the explanation column on the same line with the amount.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount accrued but not yet due for services rendered to the business. It is shown as a current liability on the Balance Sheet.

¶ 4. *To Close the Accrued Liabilities Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts credited to it are transferred to the proper service accounts. The names of each operating account affected are written in the explanation column on the debit side in the order in which they appear on the credit side. The account is ruled with single and double red lines and footed with black ink.



Accrued Liabilities

191						191					
May	31	Gen'l Admin Exp	J12	50		May	31	Rent	J12	50	
		Selling Expense	J12	103	34			Board of horses wages	J12	103	34
				153	34					153	34

Illustration No. 78, Accrued Liabilities Account.

DEFERRED CHARGES TO OPERATIONS ACCOUNT.

§ 183. **The Object of this Account** is to show the amount of expense incurred in one fiscal period which is chargeable to the following period. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit the Deferred Charges Account:

¶ 1. For the value of stationery, stamps, advertising matter, coal and other property of this nature on hand.

¶ 2. For the value of unexpired insurance, interest paid in advance, and other services of this nature.

The name of each service account is written in the explanation column on the same line with the amount.

Credit the Deferred Charges Account:

¶ 3. This account is not credited until it is closed, when it is credited as explained in ¶ 5.

¶ 4. *The Balance of this Account* before the ledger is closed shows the value of property or services paid for during this period which will not be consumed or used until the following period. It is shown as a special item following the fixed assets on the Balance Sheet.

¶ 5. *To Close the Deferred Charges to Operations Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The names of each operating account affected are written in the explanation column on the credit side in the order in which they appear on the debit side. The account is ruled with single and double red lines and footed with black ink.

Deferred Charges to Operations

191 May	31	Stationery on hand	J12	16		191 May	31	Gen'l Admr Exp.	J12	16	

Illustration No. 79, Deferred Charges to Operations Account.

DEFERRED CREDITS TO INCOME ACCOUNT.

§ 184. **The Object of this Account** is to show the amount of income received during one fiscal period but applicable to the following period. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Deferred Credits to Income Acct.:

¶ 1. This account is not debited until it is closed, when it is debited as explained in ¶ 4.

Credit Deferred Credits to Income Acct.:

¶ 2. For all income which is received during the present fiscal period but not earned during this period, such as, interest received in advance, discount on bonds purchased, unexpired subscriptions to newspapers and magazines, tuition collected in advance, etc.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount of income received during the present period which will not be earned until the following period. It is shown as a special item following the current liabilities on the Balance Sheet.

¶ 4. *To Close the Deferred Credits to Income Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The names of each operating account affected are written in the explanation column on the debit side in the order in which they appear on the credit side.

NOTE. If desired, the accruals and deferred items discussed in §§ 176-179 may be debited and credited to Sundry Resource Inventories and Sundry Liability Inventories accounts instead of the separate accounts discussed in §§ 181-184. If this is done, these items must be separated and put under the proper caption on the Balance Sheet, and not be shown as Sundry Resource Inventories and Sundry Liability Inventories for the reason given in § 180.

PROFIT AND LOSS ACCOUNT.

§ 185. **The Object of this Account** is to show the net profit or loss for the current fiscal period. In a trading business it may be represented by two sections, (a) the trading accounts, and (b) the profit and loss accounts, or it may be represented by only one section and the trading accounts shown in a separate account. If the Trading account is separate, the Profit and Loss account will show only the gross profit on sales, and the profit and loss accounts. It is opened at the close of the fiscal period, and after the ledger is closed remains in balance until the next closing time. Illustration No. 80 shows the Profit and Loss account with the two sections. Some accountants designate the account with the two sections as Trading, and Profit and Loss account. The debits and credits below refer to the account when the Trading account is made a section of the Profit and Loss account.

Debit the Trading Section:

¶ 1. For the cost of salable merchandise on hand at the close of the preceding fiscal period, which is the value of merchandise as shown by the inventory at that time.

¶ 2. For the balance of the Purchases account, which is the invoice cost of merchandise purchased, less any that might have been returned.

¶ 3. For the balance of the Freight In account, which is the net amount paid for freight on merchandise purchased.

¶ 4. For the balance of the Sales Rebates and Allowances account, which is the rebates allowed customers.

¶ 5. For the balance of the Sales Discount account, which is the net amount of discount deducted by customers.

Credit the Trading Section:

¶ 6. For the cost of salable merchandise on hand at the close of the current fiscal period, which is the same as the value of the merchandise as shown by the present inventory.

¶ 7. For the balance of the Sales account, which is the net return from merchandise sold.

¶ 8. For the balance of the Purchases Discount account, which is the net amount deducted for prompt payment of obligations.

¶ 9. *To Close the Trading Section.* The gross profit on sales which is the balance of the Trading section is entered on the debit side with red ink, the account ruled with single and double red lines, footed with black ink, and the gross profit on sales carried down on the line below the ruling with black ink under the same date. If the trading has resulted in a loss, the red ink entry will appear on the credit side and is carried down on the debit side.

Debit the Profit and Loss Section:

¶ 10. For the balance of the Trading section if it shows a loss.

¶ 11. For the balance of the General Admin. Expense account.

¶ 12. For the balance of the Selling Expense account or accounts.

¶ 13. For the balance of the other accounts showing a loss.

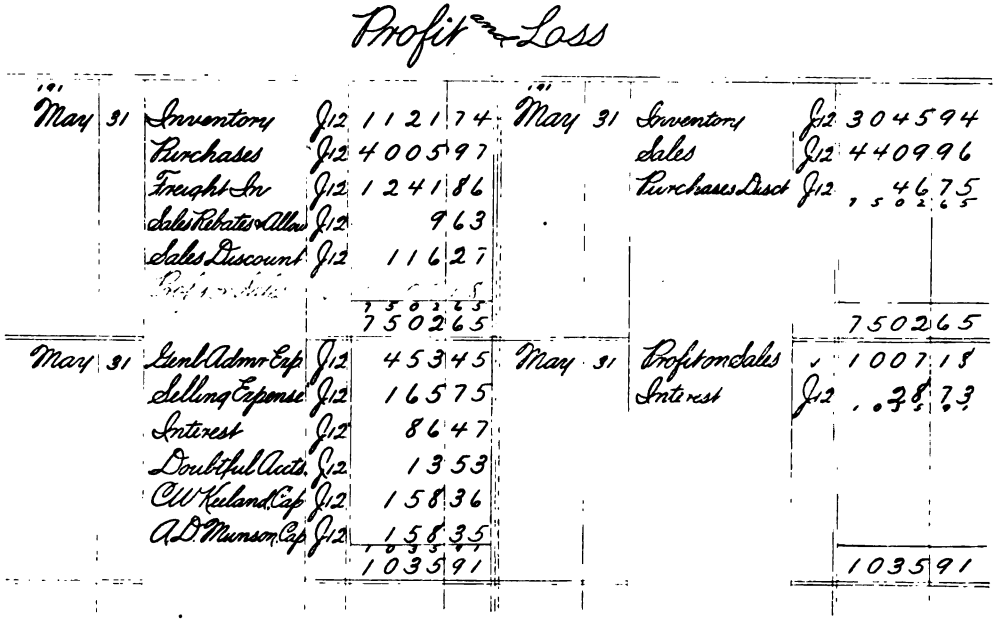
Credit the Profit and Loss Section:

¶ 14. For the balance of the Trading section if it shows a profit.

¶ 15. For the balance of the other accounts showing a profit.

¶ 16. *The Difference Between the Two Sides of this Account* shows the net profit or net loss for the fiscal period. It is the same as the net profit or net loss shown on the Profit and Loss statement.

¶ 17. *To Close the Profit and Loss Account.* When the journal entries to close the profit and loss accounts into the Profit and Loss account and the balance of the Profit and Loss account into the Partners' Capital accounts have been made and posted this account will balance and it is ruled with single and double red lines and footed with black ink.



Profit and Loss

191					191				
May	31	Inventory	J12	1121 74	May	31	Inventory	J12	3045 94
		Purchases	J12	4005 97			Sales	J12	4409 96
		Freight In	J12	1241 86			Purchases Disct	J12	46 75
		Sales Rebates & Allow	J12	9 63					7502 65
		Sales Discount	J12	116 27					
		[illegible]		[illegible]					
				7502 65					
				7502 65					7502 65
May	31	Genl Admr Exp	J12	453 45	May	31	Profit on Sales	✓	1007 18
		Selling Expense	J12	165 75			Interest	J12	28 73
		Interest	J12	86 47					
		Doubtful Accts.	J12	13 53					
		C W Keeland Cap	J12	158 36					
		A D Munson Cap	J12	158 35					
				1035 91					1035 91

Illustration No. 80, Profit and Loss Account, in connection with Illustration No. 84.

The name of each account is written in the explanation column for statistical purposes. This permits a comparison of the profits and losses for the current fiscal period with the preceding fiscal period without referring to the Profit and Loss statement.

TRADING ACCOUNT.

§ 186. **The Object of this Account** is to show the profit on sales for the current fiscal period. It shows the same facts as the trading accounts on the Profit and Loss statement, and may be shown as a separate account or as one section of the Profit and Loss account. When shown as a separate account, it is debited with the items described in § 185, ¶¶ 1–5, and credited with the items described in § 185, ¶¶ 6–8. The balance, which is the gross profit on sales, is closed into the Profit and Loss account by the journal entry made to close the trading accounts. The first part of Illustration No. 80 shows the Trading account. It is considered the better practice to close the trading accounts into the trading section of the Profit and Loss account.

C. W. KEELAND & CO.

TRIAL BALANCE, MAY 31, 191..

1	C. W. Keeland, Capital,			1500	00
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1500	00
2	A. D. Munson, Personal,			50	00
4	Purchases,	4115	09	109	12
4	Purchases Discount,			46	75
4	Inventory,	1121	74		
5	Sales,	26	91	4436	87
5	Sales Discount,	116	27		
5	Sales Rebates and Allowances,	9	63		
5	Freight In,	1241	86		
7	Interest,	86	47	25	04
7	Insurance,	55	69		
10	General Administrative Expense,	375	60		
11	Selling Expense,	79	91		
13	Office Equipment,	466	50		
13	Store Fixtures,	204	00		
14	Delivery Equipment,	450	00		
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		12184	99	12184	99

Inventory of merchandise on hand, May 31, 191..,	$3045.94
Accrued Assets:	
Interest accrued on notes receivable,	3.69
Due from Borches & Co. for delivery service rendered,	62.50
Deferred Charges to Operations:	
Insurance expired,	10.32
Stamps and stationery on hand,	16.00
Accrued Liabilities:	
Rent of warehouse,	50.00
Due Webb Livery Co. for board of horses for May,	70.00
Unpaid pay roll,	33.34

Depreciations:
Office Equipment, 5%
Store Fixtures, 5%
Delivery Equipment, 10%

Reserve for Doubtful Accounts:
1% of debit balance of personal accounts.

Illustration No. 81, Trial Balance, Inventory, Accruals, Deferred Items, and Reserves at the Close of the Fiscal Period, May 31.

ADJUSTING JOURNAL ENTRIES AT THE CLOSE OF THE FISCAL PERIOD.

§ **187. At the close of the fiscal period** prior to making the final Trial Balance, it is necessary to construct journal entries to take care of the following: expired insurance, depreciation on account of use of fixed assets, reserve set aside for doubtful accounts, accrued assets, accrued liabilities, deferred charges to operations and deferred credits to income. These entries are usually made in the order mentioned.

§ **188. Expired Insurance.** The entry to transfer the expired insurance to the proper operating account or accounts will require one or more debits, and one credit, according to the class of property insured. Amounts paid for insurance on property purchased for use in the business and property purchased for sale are usually considered as one of the general expenses of the business; insurance on buildings, as a charge to building expense; insurance on delivery equipment as a charge to selling expense. The amount of expired insurance is determined from the policies or the insurance policy record (§ 150, ¶ 1). The illustration below shows the entry for the expired insurance, May 31, mentioned in Illustration No. 81.

31		
Gen'l Admr. Expense	10 32	
Insurance		10 32
Insurance expired for the fiscal period.		

§ **189. Depreciation on Fixed Assets.** The entry to charge the proper operating accounts with the depreciation on fixed assets will require one or more debits and one or more credits, according to the number of accounts which represent the fixed assets. Depreciation on office equipment is usually regarded as one of the general expenses of the business; depreciation on delivery equipment, as a selling expense; and depreciation on store fixtures, as a general expense or both general and selling expense, depending on the nature and use of the property. The illustration below shows the entry for the depreciations mentioned in connection with Illustration No. 81. The depreciation on store fixtures is considered a part of the general expense.

31		
Gen'l Admr. Expense	33 53	
Selling Expense	45	
Res. for Dep. of Office Equipment		23 33
Res. for Dep. of Store Fixtures		10 20
Res. for Dep. of Delivery Equipment		45 00
Five per cent depreciation on office equipment, store fixtures and delivery equipment.		

§ **190. Reserve for Doubtful Accounts.** The entry to set up a reserve for possible loss on account of doubtful accounts will require one debit and one credit. The amount of the reserve is determined by the management. As a rule, it is a certain per cent of the total credit sales or of the balance of the Accounts Receivable account. The illustration below shows the form of the entry for the reserve in Illustration No. 81.

31		
Loss on Doubtful Accounts	13 53	
Reserve for Doubtful Accounts		13 53
One per cent of amount due from customers as a reserve for doubtful accounts.		

§ **191. Accrued Assets.** The entry to credit the proper service or operating accounts with the value of the accrued assets will require one debit and one or more credits, according to the number of service or operating accounts affected. The illustration below shows the entry for the accrued assets in Illustration No. 81.

31				
Accrued Assets	66	19		
Interest			3	69
Selling Expense			62	50
Interest accrued on notes receivable and amount due from Borches & Co. for delivery service.				

§ **192. Accrued Liabilities.** The entry to charge the proper service or operating accounts with the accrued liabilities will require one or more debits, and one credit, according to the service or operating accounts affected. The illustration below shows the entry for the accrued liabilities in Illustration No. 81.

31				
Gen'l Admr. Expense	50			
Selling Expense	103	34		
Accrued Liabilities			153	34
Rent of warehouse for May, $50.00; due Webb Livery Co. for board of horses, $70.00; unpaid wages, $33.34.				

§ **193. Deferred Charges to Operations.** The entry to credit the proper operating account with the value of property on hand but not yet consumed will require one debit and one or more credits, according to the number of operating accounts affected. The illustration below shows the entry for the deferred charges to operations in Illustration No. 81.

31				
Deferred Charges to Operations	16			
Gen'l Admr. Expense			16	
Stamps, stationery, etc., on hand.				

C. W. KEELAND & CO.

TRIAL BALANCE, MAY 31, 191..

1	C. W. Keeland, Capital,			1500	00
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1500	00
2	A. D. Munson, Personal,			50	00
4	Purchases,	4115	09	109	12
4	Purchases Discount,			46	75
4	Inventory,	1121	74		
5	Sales,	26	91	4436	87
5	Sales Discount,	116	27		
5	Sales Rebates and Allowances,	9	63		
5	Freight In,	1241	86		
7	Interest,	86	47	28	73
7	Insurance,	45	37		
10	General Administrative Expense,	453	45		
11	Selling Expense,	165	75		
12	Loss on Doubtful Accounts,	13	53		
12	Reserve for Doubtful Accounts,			13	53
13	Office Equipment,	466	50		
13	Reserve for Depreciation of Office Equipment,			23	33
13	Store Fixtures,	204	00		
13	Reserve for Depreciation of Store Fixtures,			10	20
14	Delivery Equipment,	450	00		
14	Reserve for Depreciation of Delivery Equip.,			45	00
15	Accrued Assets,	66	19		
15	Deferred Charges to Operations,	16	00		
15	Accrued Liabilities,			153	34
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash,	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		12434	08	12434	08

Illustration No. 82, Trial Balance, May 31, after Entries for Accruals, Deferred Items and Reserves have been made and posted.

§ 194. Deferred Credits to Income. The entry to charge the proper service accounts with the amount that is to be earned in the succeeding fiscal period will require one or more debits, according to the number of service accounts affected, and one credit. The purpose of this entry is to take out of the profits for this period that part of the profit which must be earned in the succeeding period, as explained in § 179.

STATEMENT OF THE BUSINESS FOR A PARTNERSHIP.

§ 195. The Statement of the Business for a partnership does not differ from that of an individual or corporation except in the Capital accounts and the distribution of the profit. It consists of the Balance Sheet and the Profit and Loss statement, as explained in § 80. The following sections refer to Illustrations Nos. 83 and 84, and are based on the same facts concerning the statement of the business as explained in §§ 81 and 82. The illustrations may be used as a basis for making up a statement for a business conducted by either an individual, a partnership, or a corporation.

§ 196. Balance Sheet. This consists of the current assets, accrued assets, fixed assets, and deferred charges to operations; current liabilities, accrued liabilities, personal accounts of the partners, capital invested, and present capital. These are usually arranged in the order mentioned, but some accountants advise listing the fixed assets first.

¶ 1. *Assets.* The current assets consist of cash, notes receivable, accounts receivable less the reserve set aside for possible loss on account of doubtful accounts, inventory, and the accrued assets (an account due from Borches & Co. for delivery service, and interest accrued on Notes Receivable). The fixed assets are arranged in the order in which they appear on the ledger, the balance of the ledger account and the reserve for depreciation of each being shown separately. The deferred charges to operations (value of stamps, stationery, etc., on hand, and the value of the insurance as shown by the Insurance account) are shown last because they are assets that will be consumed by their use.

¶ 2. *Liabilities.* The liabilities are, notes payable, accounts payable, accrued liabilities (rent of warehouse, livery bill and unpaid pay roll) and amounts due the partners for salaries not withdrawn.

The difference between the total assets and total liabilities is the Present Capital or Partners' interests in the business. Each partner's share of the profit as shown by the Profit and Loss statement added to his investment equals his interest in the business. See Illustration No. 83.

§ 197. Profit and Loss Statement. This shows, (a) the gross profit on sales, (b) the cost of operations, (c) other income, and (d) deductions from income. The facts in this statement are obtained from the accounts, Trial Balance and the inventory of merchandise on hand at the close of the current fiscal period.

¶ 1. *The Gross Profit on Sales* is the result of the following: (a), the gross returns from sales (credit side of the Sales account); (b), the returns by customers (debit side of the Sales account); (c), the rebates and allowances to customers (balance of the Rebates and Allowances account); (d), discount allowed customers on account of prompt payment (balance of the Sales Discount account); (e), the net returns from sales; (f), the inventory cost of merchandise on hand at the beginning of the period (balance of the Inventory account); (g), invoice cost of merchandise purchased during the period (debit side of the Purchases account); (h), freight on merchandise purchased (balance of the Freight In account); (i), returns, rebates and allowances (credit side of the Purchases account); (j), deductions

C. W. KEELAND & CO.

BALANCE SHEET, MAY 31, 191..

Current and Accrued Assets:					
Cash,		1836	66		
Notes Receivable,		645	65		
Accounts Receivable, Deduct Res. for Doubtful Accts.	1353.01 13.53	1339	48		
Merchandise Inventory, May 31, 191..,		3045	94		
Accrued Interest on Notes,		3	69		
Accrued charge for delivery service,		62	50		
Total Current and Accrued Assets,				6933	92
Fixed Assets:					
Office Equipment, Deduct Res. for Depreciation,	466.50 23.33	443	17		
Store Fixtures, Deduct Res. for Depreciation,	204.00 10.20	193	80		
Delivery Equipment, Deduct Res. for Depreciation,	450.00 45.00	405	00		
Total Fixed Assets,				1041	97
Deferred Charges to Operations:					
Insurance Unexpired,		45	37		
Stamps and Stationery on hand		16	00		
Total Deferred Charges to Operations				61	37
Total Assets and Deferred Charges,				8037	26

Current and Accrued Liabilities:				
Notes Payable,	2081	39		
Accounts Payable,	2395	82		
Accrued Rent of Warehouse,	50	00		
Accrued Livery Bill,	70	00		
Accrued Wages,	33	34		
Total Current and Accrued Liabilities			4630	55
Capital Accounts of Partners:				
C. W. Keeland, - Present Investment, Add C. W. Keeland Personal,	1658 40	36 00	1698	36
A. D. Munson, - Present Investment, Add A. D. Munson,Personal	1658 50	35 00	1708	35
Total Liabilities and Partners' Capital			8037	26

Illustration No. 83, Balance Sheet for Fiscal Period Ending, May 31.

EXPLANATION. This Balance Sheet is prepared from the real, valuation, and capital accounts on the Trial Balance in Illustration No. 81, and inventory of merchandise on hand. A detailed explanation is given in § 196. If desired, the fixed assets may be listed first and followed by the current assets. The form of Balance Sheet in this illustration is the same as that used in the preceding set. This form is quite popular with practicing accountants and approved by authors of standard accounting literature. If desired, the arrangement may be similar to the Profit and Loss statement (Illustration No. 84) with the assets listed first.

from purchases on account of prompt payment (balance of the Purchases Discount account); (k), net cost of merchandise purchased; (l), inventory value of merchandise on hand at the close of the fiscal period as shown by the inventory but not represented by an account on the books; (m), the net cost of merchandise sold; (n), the gross profit on sales which is the difference between the net returns from sales and the net cost of merchandise sold.

Reference to the formula at the right in connection with the above information and Illustration No. 84 will make clear the method of ascertaining the gross profit on sales.

$$A-(B+C+D)=E.$$
$$F+G+H-(I+J)=K.$$
$$K-L=M.$$
$$E-M=N.$$

Some authors refer to this part of the Profit and Loss statement as a "Trading Statement" and others as the "Trading Section." When shown as a part of the Profit and Loss statement, this should not be designated by a special name; when shown separately, it is a schedule and designated as "Schedule No. 1" or the number given it.

¶ 2. *The Cost of Operations.* In the illustration the operating cost of conducting the business is represented by two accounts—General Administrative Expense and Selling Expense. These are deducted from the gross profit on sales to ascertain the net profit on operations. The deductions are made at this time because the expenses are necessary to produce the returns from sales.

¶ 3. *Other Income or Profits* are shown by the credit side of profit accounts. In the illustration these are represented by one account—the credit side of the Interest account. The credit side of the Interest account is shown separately from the debit side because the credit side shows the returns while the debit side shows the cost of interest. The addition of the other income to the net profit on sales gives the gross income.

¶ 4. *Deductions from Income.* In the illustration the deductions from income consist of the debit side of the Interest account and the amount of the reserve set up to take care of possible losses on account of doubtful accounts. The total of these two losses is deducted from the gross income to ascertain the net profit for the period.

The net profit for the period as shown by the Profit and Loss statement must be the same as the difference between the "Present Capital" and the investment as shown on the Balance Sheet. No facts in connection with either statement can be considered correct until these two amounts agree.

NOTE. If Purchases Discount is regarded as an income from Capital and not a deduction from the invoice cost of purchases it will be shown with the other profits and income on the Profit and Loss statement and not as a deduction from the purchases cost.

§ 198. **Journal Entries to Close the Ledger.** As explained in § 84, there are two methods of closing the ledger—one by the direct transfer or "red ink" method and the other by journal entry or entries. To close the ledger by journal entry requires at least two entries: (a) one to close the trading accounts, and (b) one to close the profit and loss accounts. In a business conducted by an individual or partnership the Capital accounts are usually closed with red ink.

§ 199. **Entry to Close the Trading Accounts.** After the Balance Sheet and Profit and Loss statement have been made and proved to be correct, the trading accounts are closed into the Profit and Loss account. This entry will require two or more debits and two or more credits, according to the number of trading accounts on the Profit and Loss statement. The illustration at the top of page 156 shows the entry required to close the trading accounts on the Profit and Loss statement shown in Illustration No. 84.

¶ 1. *To Close the Accounts with a Credit Balance.* The Inventory account is debited for the value of the salable merchandise on hand as shown by the inventory at the close of the fiscal period; the Sales account and Purchases Discount

C. W. KEELAND & CO.

STATEMENT OF PROFIT AND LOSS FOR PERIOD, APRIL 1, 191.. to MAY 31, 191..

Returns from Sales:					
Gross Sales,				4436	87
Deduct Returns,		26	91		
" Rebates and Allowances,		9	63		
" Sales Discount,		116	27	152	81
Net returns from merchandise sold,				4284	06
Cost of Sales:					
Merchandise Inventory, April 1, 191..,	1121.74				
Add Merchandise Purchases,	4115.09				
" Freight on Purchases,	1241.86	6478	69		
Deduct Purchases Returns & Allowances,	109.12				
" Purchases Discount,	46.75	155	87		
Net cost of merchandise purchased,		6322	82		
Deduct Merchandise Inventory, May 31, 191..,		3045	94		
Net cost of merchandise sold,				3276	88
Gross Profit on Sales,				1007	18
Operating Expenses:					
General Administrative Expense,		453	45		
Selling Expense,		165	75	619	20
Net profit from operations,				387	98
Other Income:					
Interest on Notes Receivable,				28	73
Gross Income,				416	71
Deductions from Income:					
Loss on Doubtful accounts,		13	53		
Interest on Notes Payable,		86	47	100	
Net Profit,				316	71
C. W. Keeland, one-half net profit,		158	36		
A. D. Munson, one-half net profit,		158	35		
		316	71	316	71

PROOF

C. W. Keeland's Present Capital (Balance Sheet)		1658.36
A. D. Munson's Present Capital (Balance Sheet)		1658.35
C. W. Keeland's Investment	1500.00	
Add one-half net profit	158.36	
A. D. Munson's Investment	1500.00	
Add one-half net profit	158.35	
	3316.71	3316.71

Illustration No. 84, Profit and Loss Statement for Fiscal Period Ending, May 31.

EXPLANATION. This statement is prepared from the nominal accounts given in the Trial Balance for May 31, Illustration No. 82, and inventory of merchandise on hand. (§ 197, ¶¶ 1-4.)

account are debited for the difference between the two sides of each; the Profit and Loss account is credited for the total. This closes all the accounts that have a credit balance. See Illustrations Nos. 56, 58, 59 and 80.

¶ 2. *To Close the Accounts with a Debit Balance.* The Profit and Loss account is debited with the total of the balances of the Inventory (salable merchandise on hand at the beginning of the fiscal period), Purchases, Freight In, Sales Discount, and Sales Rebates and Allowances accounts; the Inventory, Purchases, Freight In, Sales Discount, and Sales Rebates and Allowances accounts are credited because each shows a debit balance. See Illustrations Nos. 54, 55, 57, 58, 60 and 80.

	31				
	Inventory, May 31	3045	94		
	Sales	4409	96		
	Purchases Discount	46	75		
	Profit and Loss			7502	65
	Profit and Loss	6495	47		
	Inventory, April 1			1121	74
	Purchases			4005	97
	Freight In			1241	86
	Sales Discount			116	27
	Sales Rebates and Allowances			9	63
	To close the trading accounts into the Profit and Loss account.				

NOTE. Some accountants advise closing the accounts affecting the purchases cost of merchandise into the Purchases account, and the balance of this account into the Trading section of the Profit an s account. When this plan is followed, the Purchases account is debited for the balance of the Freight In account and credited with the balance of the Purchases Discount account if such discounts are considered as a deduction from purchases cost. This entry is made before the entry to close the trading accounts and separate from it. The entries to close the other accounts and to close the Purchases account after this entry has been posted are the same as described above.

¶ 3. *To Post the Entries.* When this entry is posted all of the trading accounts that appear on the Profit and Loss statement will balance and are ruled with single and double red lines and footed with black ink, except the Inventory, which has only one amount on each side and is ruled with double red lines only. The Profit and Loss account is not credited with the single amount that appears opposite "Profit and Loss," nor debited with the single amount that appears opposite "Profit and Loss," but with each amount in the credit and debit entry.

It is customary to rule the Profit and Loss account at this point and carry the gross profit on sales down on the credit side under the same date, as explained in § 185, ¶ 9, and shown in Illustration No. 80.

§ 200. Entry to Close the Profit and Loss Accounts. This entry will have one or more debits and one or more credits, according to the number of profit and loss accounts on the Profit and Loss statement. It may also include the closing of the Profit and Loss account. The illustration at the top of page 157 shows the entry required to close the profit and loss accounts on the Profit and Loss statement shown in Illustration No. 84.

¶ 1. *To Close the Accounts with a Credit Balance.* Interest is debited for the credit side of the Interest account because this amount appears as a profit, and the Profit and Loss account is credited. If there had been other profit accounts these would have been debited, and Profit and Loss credited with the total.

¶ 2. *To Close the Accounts with a Debit Balance.* The Profit and Loss account is debited with the balances of the General Administrative Expense and Selling Expense accounts, the debit side of the Interest account and the balance of the Loss on Doubtful Accounts account; each of these accounts is credited. The Interest account is credited with the amount of the debit side of this account, but if desired the entry may be made for the balance of the Interest account instead of a separate entry for the amount of each side.

31		
Interest	28 73	
Profit and Loss		28 73
Profit and Loss	719 20	
Gen'l Admr. Expense		453 45
Selling Expense		165 75
Interest		86 47
Loss on Doubtful Accounts		13 53
To close the profit and loss accounts into the Profit and Loss account.		

¶ 3. *Entry to Close the Profit and Loss Account.* A separate entry is made to close the balance of the Profit and Loss account into the partners' Capital accounts. If desired, this may be combined with the entry to close the profit and loss accounts. The illustration below shows the form of entry to close the Profit and Loss account resulting from the Profit and Loss statement in Illustration No. 84, into the partners' Capital accounts. If any part of the profit is to be withdrawn, this would be credited to the partners' Personal accounts. When this entry is posted the Profit and Loss account will balance and it is ruled with single and double red lines and footed with black ink.

31		
Profit and Loss	316 71	
C. W. Keeland Capital		158 36
A. D. Munson Capital		158 35
To close the Profit and Loss account into the Capital accounts.		

¶ 4. *To Post the Entries.* When the entries described in ¶¶ 1, 2, and 3 have been posted, all the accounts on the Profit and Loss statement, including the Profit and Loss account will balance, and the net profit or net loss will be transferred to the partners' Capital accounts. All accounts are ruled with single and double red lines and footed with black ink.

§ 201. To Close the Capital Accounts. The entry to close the profit and loss accounts includes the distribution of the profit, hence, when posted, each partner's Capital account will have been credited with his share of the net profit and will show his present interest in the business. This is entered on the debit side with red ink under the date of closing as "Present Capital." When this entry has been made, the account will balance and is ruled with single and double red lines and footed with black ink. The Present Capital is carried down on the opposite side under the date of the first business day following the closing, "Present Capital" being written in the explanation column. See Illustration No. 50.

§ 202. Entries to Close the Accrued Assets, Accrued Liabilities and Deferred Charges to Operations Accounts. After the ledger has been closed, it is necessary to transfer the items posted to these accounts to the operating or service accounts which they affect. This requires three separate journal entries, one to close each account.

¶ 1. *To Close the Accrued Assets Accounts.* This entry requires one or more debits, and one credit, according to the number of accounts affected. The illustration at the top of page 158 shows the form of entry required to close the Accrued Assets account resulting from the entry under § 191. At this time there are two accounts affected—Interest and Selling Expense. The Interest and Selling Expense accounts are debited and the Accrued Assets account credited. When posted, the latter will balance and is ruled with single and double red lines and footed with black ink.

31				
Interest	3	69		
Selling Expense	62	50		
Accrued Assets			66	19
To close the Accrued Assets account.				

¶ 2. *To Close the Accrued Liabilities Account.* This entry requires one debit and one or more credits, according to the number of accounts affected. The illustration below shows the form of entry required to close the Accrued Liabilities account resulting from the entry under § 192. At this time there are two accounts affected by the credit entry, General Administrative Expense for the amount due for rent, Selling Expense for the amount due for board of horses and the unpaid pay roll. Accrued Liabilities account is debited, and the two operating accounts credited. When this entry is posted, the Accrued Liabilities account will balance and is ruled with single and double red lines and footed with black ink.

31				
Accrued Liabilities	153	34		
Gen'l Admr. Expense			50	
Selling Expense			103	34
To close the Accrued Liabilities account.				

¶ 3. *To Close the Deferred Charges to Operations Account.* This entry requires one or more debits, and one credit, according to the number of accounts affected. The illustration at the top of page 159 shows the form of entry required to close the Deferred Charges to Operations account resulting from the entry under § 193.

(*Concluded on page 159.*)

C. W. KEELAND & CO.

PROOF SHEET, MAY 31, 191..

1	C. W. Keeland, Capital,			1658	36
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1658	35
2	A. D. Munson, Personal,			50	00
4	Inventory,	3045	94		
7	Interest,	3	69		
7	Insurance,	45	37		
10	General Administrative Expense,	16	00	50	00
11	Selling Expense,	62	50	103	34
12	Reserve for Doubtful Accounts,			13	53
13	Office Equipment,	466	50		
13	Reserve for Depreciation of Office Equipment,			23	33
13	Store Fixtures,	204	00		
13	Reserve for Depreciation of Store Fixtures,			10	20
14	Delivery Equipment,	450	00		
14	Reserve for Depreciation of Delivery Equip.,			45	00
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash,	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		8129	32	8129	32

Illustration No. 85, Proof Sheet, May 31.

EXPLANATION. This shows the accounts in the Trial Balance, Illustration No. 82, after the entries closing the profit and loss accounts have been posted. It shows the same accounts as the Balance Sheet; asset accounts are debited; valuation, liability, and capital accounts are credited.

(§ *202*, ¶ *3—Concluded.*)

The value of the unexpired insurance is shown by the balance of the Insurance account, hence no entry is necessary for this. Only one account, General Administrative Expense, is affected by the credit entry, which is for the value of stamps and stationery on hand. The General Administrative Expense account is debited and Deferred Charges to Operations account credited. When this entry is posted, the Deferred Charges account will balance and is ruled with double lines, as there is only one entry on each side.

31		
Gen'l Admr. Expense	16	
Deferred Charges to Operations		16
To close the Deferred Charges to Operations account.		

NOTE. In posting to the Accrued Assets, Accrued Liabilities and Deferred Charges to Operations accounts, the name of the account into which each amount is closed should be written in the explanation column. Since the name of the account was written in the explanation column when the entry to create the account was posted as explained in §§ 181-183, the same facts will appear in the explanation column on each side.

Exercise No. 68, Trial Balance, Brown & Simpson, July 31, 191.

E. R. Brown, Capital, Dr. $1,000.00, Cr. $3,500.00; C. W. Simpson, Capital, Dr. $1,000.00, Cr. $3,500.00; E. R. Brown, Personal, Dr. $387.65; C. W. Simpson, Personal, Dr. $639.87; Inventory, Dr. $3,621.92; Freight In, Dr. $1,129.63, Cr. $26.40; Purchases, Dr. $6,894.43, Cr. $391.84; Sales, Dr. $245.28, Cr. $10,862.13; Sales Rebates and Allowances, Dr. $120.04; Sales Discount, Dr. $624.98, Cr. $35.50; Purchases Discount, Dr. $20.00, Cr. $391.64; General Administrative Expense, Dr. $752.08; Selling Expense, Dr. $372.45; Notes Receivable, Dr. $1,010.24; Interest, Dr. $17.95, Cr. $67.51; Office Equipment, Dr. $850.50; Reserve for Depreciation of Office Equipment, Cr. $19.42; Notes Payable, Cr. $2,500.00; Delivery Equipment, Dr. $350.00; Reserve for Depreciation of Delivery Equipment, Cr. $57.50; Personal Accounts Receivable, Dr. $4,168.43; Personal Accounts Payable, Cr. $3,795.16; Insurance, Dr. $150.00; Cash, Dr. $1,791.65.

Inventory: Salable merchandise on hand, $3,618.92.

Accrued Assets: Interest on notes receivable, $12.50.

Accrued Liabilities: Salaries of clerks in the selling department, $50.00; salaries of office employees, $25.00; rent unpaid, $75.00.

Deferred Charges to Operations: Office supplies on hand, $29.75; catalogs on hand, $25.00.

Expired insurance on office equipment and merchandise, $25.00.

Depreciations: Office Equipment, 5%; Delivery Equipment, 5%.

Reserve for Doubtful Accounts, 1% of balance due from customers.

Proceed as follows:

(a) Make the journal entries for the expired insurance (§ 188), depreciation on fixed assets (§ 189), reserve for doubtful accounts (§ 190), accrued assets (§ 191), accrued liabilities (§ 192), deferred charges to operations (§ 193), and post them; (b) take a Trial Balance showing the accounts with these changes; (c) from this Trial Balance prepare a Balance Sheet (§ 196), and Profit and Loss statement (§ 197); (d) make the journal entry necessary to close the accounts on the Profit and Loss statement and the Profit and Loss account; profit divided equally (§§ 199 and 200); (e) close the partners' Capital accounts; (f) make the entry necessary to transfer the accrued assets, accrued liabilities and deferred charges to operations, to the proper service accounts (§ 202).

Exercise No. 69, Trial Balance, Day, Moxley, and Hatcher, Dec. 31, 191.

Chas. Day, Capital, Dr. $650.00, Cr. $6,000.00; Wm. Moxley, Capital, Dr. $400.00, Cr. $4,000.00; H. D. Hatcher, Capital, Cr. $4,000.00; Chas. Day, Personal,

(*Concluded on page 160.*)

(*Exercise No. 69—Concluded.*)

Dr. $44.19; Wm. Moxley, Personal, Cr. $115.19; H. D. Hatcher, Personal, Dr. $25.91; Inventory, Dr. $4,862.24; Purchases, Dr. $10,864.48, Cr. $374.96; Sales Discount, Dr. $629.50, Cr. $10.00; Purchases Discount, Dr. $20.10, Cr. $586.46; Freight In, Dr. $1,051.67, Cr. $13.91; Sales, Dr. $236.52, Cr. $15,616.68; Sales Rebates and Allowances, Dr. $133.22; Cash, Dr. $4,680.52; Selling Expense, Dr. $1,036.82; Insurance, Dr. $300.00; General Administrative Expense, Dr. $1,450.79; Interest, Dr. $26.95, Cr. $56.98; Notes Receivable, Dr. $4,452.65; Notes Payable, Cr. $1,650.00; Office Equipment, Dr. $865.96; Reserve for Depreciation of Office Equipment, Cr. $85.55; Accounts Receivable, Dr. $3,586.42; Accounts Payable, Cr. $4,808.21; Delivery Equipment, Dr. $2,000.00.

Inventory: salable merchandise on hand, $3,621.52. Accrued Assets: interest on notes receivable, $14.75. Accrued Liabilities: salaries of employees in selling department, $94.80; salaries of office employees, $100.00; unpaid rent, $100.00. Deferred Charges to Operations: office supplies on hand, $40.00; catalogs on hand, $54.00. Expired insurance on office equipment and merchandise, $100.00; expired insurance on delivery equipment, $50.00. Depreciations: Office Equipment, 5%; Delivery Equipment, 5%. Reserve for Doubtful Accounts, 2% of balance due from customers.

(a) Make the journal entries for the expired insurance (§ 188), depreciation on fixed assets (§ 189), reserve for doubtful accounts (§ 190), accrued assets (§ 191), accrued liabilities (§ 192), deferred charges to operations (§ 193), and post them; (b) take a Trial Balance showing the accounts with these changes; (c) from this Trial Balance prepare a Balance Sheet (§ 196), and Profit and Loss statement (§ 197); (d) make the journal entry necessary to close the accounts on the Profit and Loss statement and the Profit and Loss account, profit or loss shared equally by the partners (§§ 199 and 200); (e) close the partners' Capital accounts; (f) make the entry necessary to transfer the accrued assets, accrued liabilities and deferred charges to operations, to the proper service or operating accounts (§ 202).

QUESTIONS.

1. Define accrued assets and give an example. (§ 176.)
2. Define accrued liabilities and give an example. (§ 177.)
3. Define deferred charges to operation and give an example. (§ 178.)
4. Define deferred credits to income and give an example. (§ 179.)
5. State the object of the Accrued Assets account. (§ 181.) How is it shown on the Balance Sheet? (§ 181, ¶ 3.)
6. State the object of the Accrued Liabilities account. (§ 182.) How is it shown on the Balance Sheet? (§ 182, ¶ 3.)
7. State the object of the Deferred Charges to Operations account. (§ 183.) How is it shown on the Balance Sheet? (§ 183, ¶ 4.)
8. State the object of the Deferred Credits to Income account. (§ 184.)
9. What is the object of the Trading account? (§ 186.)
10. Name the two methods of showing it in the ledger.
11. Why is the ledger closed? (§ 84.)
12. Name the two methods of closing the ledger.
13. Name the adjusting entries at the close of the fiscal period. (§§188-194.)
14. Name the two statements made at the close of the fiscal period. (§ 195.)
15. State the object of each. (§§ 196 and 197.)
16. What two methods are used in closing the ledger? (§ 198.)
17. Describe the entry to close the trading accounts. (§ 199.)
18. Describe the entry to close the profit and loss accounts. (§ 200.)
19. Describe the entry to transfer the profit to the Capital accounts. (§ 201.)
20. Describe the entry to close the Accrued Assets, Accrued Liabilities, and Deferred Charges to Operations accounts. (§ 202.)

PARTNERSHIP SET (Continued).

JUNE.

§ 203. **Introduction.** The work in this month is a continuation of the practice work of April and May and introduces the following: accounts with Consignments Outward, Consignments Inward, Commission, Sales Ledger (Accounts Receivable), Reserve for Doubtful Accounts, and Traveling Expense; Shipping Invoice; Account Sales; Shipments and Consignments; Special Column Journal; Special Column Cash Book; and C. O. D. Shipments.

CONSIGNMENTS.

§ 204. **Merchandise sent by the owner** to another to be sold by him at the owner's expense and risk is known as a consignment. The owner is known as the consignor and the party to whom the merchandise is sent, the consignee.

Formerly the selling of merchandise on consignment was very popular because it allowed the owner to retain title until sold, and also permitted him to receive the benefit of profit derived from an increase in market price. It is not so extensive now because the modern business man prefers to buy the goods he sells. An exception to this is merchandise of a perishable nature or goods, the cost of which will not justify the investment. An illustration of merchandise of a perishable nature is vegetables, poultry, eggs, live stock, etc.; an illustration of the other class is cotton, grain, etc.

CONSIGNMENT OUTWARD ACCOUNT.

§ 205. **The Object of this Account** is to show the amount of expense incurred on merchandise shipped to be sold on consignment. This includes only those expenses which are paid by the consignor. The account is designated by the name of the person or firm to whom the consignment is made, the words "Consignment Outward" and the number, No. 1, indicating the first consignment. Additional consignments to the same party should be numbered in consecutive order.

When merchandise is shipped on consignment, the consignor renders the consignee an invoice of shipment (§ 208), setting forth the articles shipped, the cost, and all special conditions in connection with the consignment. No entry is made for the value of the merchandise on the general books because there is no change in ownership. However, a memorandum entry should be made either in the journal or a special book, setting forth the same facts as shown by the shipping invoice. If a part payment is made on account of the sales, the amount is credited to the Consignment Outward account. When the consignee renders an account of the sales (§ 209) of the merchandise sent him on consignment, the Consignment Outward account is credited with the net proceeds, or the net proceeds less the advances. No personal account is necessary with the consignee unless a remittance for balance due does not accompany the account sales.

If the owner wishes to know the profit on each consignment of merchandise, he can ascertain this by deducting the gross cost (cost shown by the memorandum entry plus the charges, balance of the Consignment Outward account) from the net proceeds as shown by the account sales (§ 206, ¶ 5).

Debit the Consignment Outward Acct.:	*Credit the Consignment Outward Acct.:*
¶ 1. For amounts paid by the consignor for freight, drayage and other charges incurred in connection with the shipment to the consignee or its return to the consignor if not sold.	¶ 2. For cash, notes, or acceptances, on account of the consignment. ¶ 3. For the net proceeds shown on the account sales rendered by the consignee.

Brown Bros. Consignment Outward No. 1

'191 Sept.	10	Freight	C.3	36	50	'191 Sept.	15		C.4	200	
	30	Consign Sales	J.3	919	12		26	Account Sales	C.6	755	62
				455	62					955	62
				955	62					955	62

Illustration No. 86, Consignment Outward Account for Exercise No. 70.

¶ 4. *The Difference Between the Two Sides* of this Account shows the net returns from the consignment. It is shown on the Profit and Loss statement as one of the returns from the sale of merchandise, under the caption "Consignment Sales." If any part or all of the merchandise remains unsold, the value is shown on the Balance Sheet as an inventory of merchandise, but separate from the merchandise in stock.

¶ 5. *To Close the Consignment Outward Account.* The balance of this account may be closed into the Consignment Sales account at the time the account sales is received, or at the close of the fiscal period; the balance of the Consignment Sales account is closed by the journal entry made to close the accounts on the Profit and Loss statement.

Exercises in Consignment Outward Accounts. Prepare on ledger paper a Consignment Outward account for each of these three exercises. Exercise No. 70 is the same as Illustration No. 86. References are to § 205.

Exercise No. 70. Brown Bros., Consignment Outward, No. 1.

Sept. 9. Shipped Brown Bros., Chicago, 500 bushels potatoes, cost $1.65 per bushel, to be sold on consignment.

10. Paid $36.50, freight on the potatoes shipped Brown Bros.

15. Received check for $200.00 from Brown Bros., on account of sales of the potatoes shipped them on consignment.

26. Received from Brown Bros. an account of the sales of the potatoes, with check for $755.62, net proceeds less advance payment.

30. At the close of the fiscal period, the balance is closed into the Consignment Sales account.

Exercise No. 71. Wolf & Lott, Consignment Outward, No. 3.

Oct. 1. Shipped Wolf & Lott, New York, 200 bales of hay, 20,000 lbs., cost $15.00 per ton, to be sold on our account and risk.

3. Paid $38.75, freight on hay shipped to Wolf & Lott.

31. Received an account of sales of the hay shipped Wolf & Lott on consignment, with check for the net proceeds, $261.75.

Exercise No. 72. Central Commission Co., Consignment Outward, No. 6.

May 26. Shipped the Central Commission Co., New York, 15,000 quarts strawberries, cost 13c per qt., to be sold on consignment.

May 27. Paid the Harold Transfer Co. $86.75 for drayage and loading the strawberries on the car.

June 1. Paid $1.25 for telegram on account of shipment.

10. They accepted a five-day draft for $1,000.00, on account of shipment.

15. Received a check for $400.00 on account of shipment.

23. They sent us a note for $118.75, which was transferred to them in payment for berries sold from the shipment.

26. Received check for $246.50, balance due as per account sales rendered.

Show the profit resulting from this consignment.

CONSIGNMENT INWARD ACCOUNT.

§ **206. The Object of this Account** is to show the amount due the consignee or due from him. It is the account that the consignee keeps with the goods received from the consignor to be sold on consignment. An account is kept with each person or firm from whom consignments are received. The account is designated by the name of the person or firm from whom the consignment is received, the words "Consignment Inward" and the number, "No. 1" indicating the first consignment. Additional consignments inward made by the same party would be numbered in consecutive order.

No entry is made on the general books at the time the merchandise to be sold on consignment is received, but a memorandum entry should be made in the journal or a special consignment book if there are a number of consignments. Merchandise on hand at the close of the fiscal period belonging to a consignment does not affect the Balance Sheet prepared from the books of the consignee because it does not belong to him. The only interest he has in the consignment is the freight and other charges which he may have paid.

Debit the Consignment Inward Acct.:

¶ 1. For amounts paid for freight, drayage, or any services in handling the merchandise belonging to the consignment.

¶ 2. For amounts paid, notes given, or drafts accepted, as part payment of the goods sold.

¶ 3. For the value of goods returned by customers or rebates allowed on account of damaged goods.

¶ 4. For the charges made at the time the account sales is rendered, which are usually for drayage, storage, insurance and commission.

¶ 5. For the net proceeds, which is ¶ 6 minus the total of ¶¶ 1, 3 and 4.

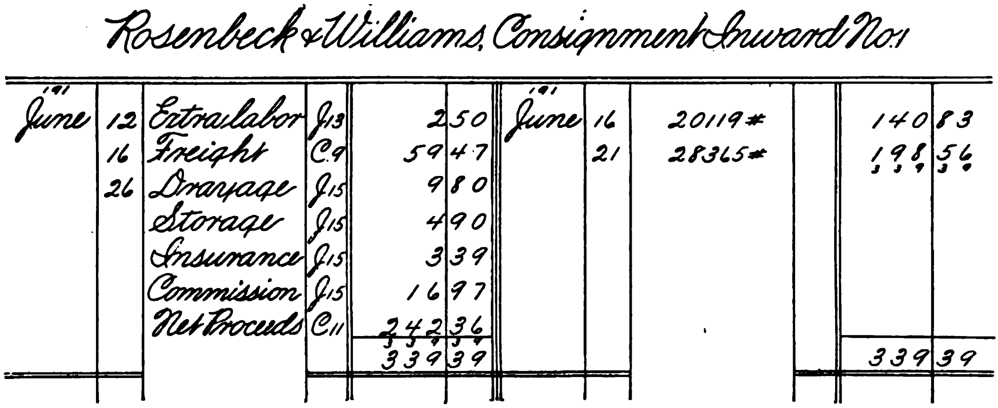
Credit the Consignment Inward Acct.:

¶ 6. For cash or credit sales of merchandise belonging to the consignment.

¶ 7. *The Balance of this Account* shows the amount due from or owed to the consignee. The amounts that appear on the debit side are charges, and the amounts on the credit side, sales. If the net charges exceed the sales, the consignor owes the consignee this amount. If the net sales exceed the charges, the consignee owes the consignor. The balance is shown either as a current asset or a current liability on the Balance Sheet.

Merchandise on hand belonging to the consignment would not be shown on the Balance Sheet because it does not belong to the consignee. It is the property of the consignor and subject to his orders.

¶ 8. *To Close the Consignment Inward Account.* This account is not closed until the account sales is rendered. After the journal entry for the charges has been posted, the two sides are equal and the account is ruled with single and double red lines and footed with black ink. If there are any goods on hand, the value of these is shown on the account sales for the information of the consignor and a new memorandum entry made on the books of the consignee. Illustration No. 87 shows the form of the Consignment Inward account.



Rosenbeck & Williams, Consignment Inward No. 1

191						191					
June	12	Extra labor	J13	2	50	June	16	20119#		140	83
	16	Freight	C9	59	47		21	28365#		198 339	56 39
	26	Drayage	J15	9	80						
		Storage	J15	4	90						
		Insurance	J15	3	39						
		Commission	J15	16	97						
		Net Proceeds	C11	242 339	36 39						
				339	39					339	39

Illustration No. 87, Consignment Inward Account for Exercise No. 73.

Exercises in Consignment Inward Accounts. Prepare on ledger paper a Consignment Inward account for each of these three exercises. Exercise No. 73 is the same as Illustration No. 87. References are to § 206.

Exercise No. 73. Rosenbeck & Williams, Consignment Inward, No. 1.

June 12. Accepted 500 bales, 49,561 lbs. of hay from Rosenbeck & Williams, Springfield, to be sold on consignment; paid $2.50 for unloading (¶ 1).

16. Sold for cash, 200 bales, 20,119 lbs. hay at $14.00 per ton (¶ 6).

16. Gave the C. N. O. & T. P. Ry. Co. a check for $59.47; freight charges on consignment (¶ 1).

21. Sold for cash, 290 bales, 28,365 lbs. hay at $14.00 (¶ 6).

25. Rendered an account sales for 490 bales, 48,484 lbs.; 10 bales, 1,077 lbs., were too badly damaged to be sold. Our charges were 2c per bale drayage, 1c per bale storage, 1% of the sales for insurance, and 5% of the sales for commission (¶ 4). Enclosed check for the net proceeds (¶ 5).

Exercise No. 74. Davis & Bros., Consignment Inward, No. 6.

Nov. 5. Received from Davis & Bros. of Cleveland, 5,000 baskets of grapes, to be sold on consignment.
7. Gave the C. C. C. & St. L. Ry. Co. a check for $107.65 to pay freight on the grapes (¶ 1).
8. Sold for cash, 1,000 baskets grapes at 14c (¶ 6).
9. Paid 80c for telegram on account of consignment (¶ 1).
12. Sold on account, 2,000 baskets grapes at 14c.
13. Accepted 10-day draft for $150.00 (¶ 2).
14. Sold for cash, 500 baskets grapes at 14c.
16. Sold for cash, 1,500 baskets grapes at 13½c.
20. Sent them an account sales; charges ½c per basket for storage, ½c per basket for drayage, $10.00 for insurance, and 4% of the sales for our commission (¶ 4); sent them check for the net proceeds less advances.

Exercise No. 75. Florida Commission Co., Consignment Inward, No. 9.

Make journal entries for the following transactions and post the entries that affect the Consignment Inward account.

June 5. Received from the Florida Commission Co., Jacksonville, 1,000 watermelons to be sold on their account and risk.
6. Paid for unloading and transferring to the warehouse, $12.50.
7. Sold for cash, 200 melons at 28c.
9. Sold T. E. Burns Co., on account, 150 melons at 28c.
12. Paid 90c for telegram on account of consignment.
14. Collected 40c, retail price, for a melon which the driver ate.
15. Sold for cash, 300 melons at 27c.
17. Allowed T. E. Burns Co. credit for $1.40 for 5 melons which were in a bad condition when received by him (¶ 3).
18. Sent the consignor a check for $50.00 on account of consignment.
22. Sold W. R. Carter & Son, 100 melons at 26c.
27. Accepted ten-day draft for $75.00 on account of consignment.
28. Sold for cash, 125 melons at 27c.
July 3. Sold the remainder of the melons for cash, $31.16.
6. Rendered an account sales and sent check for the net proceeds less advances. Our charges were 1c per melon for drayage; 1c per melon for storage; 1% of the net sales for insurance; 4% of the net sales for commission.

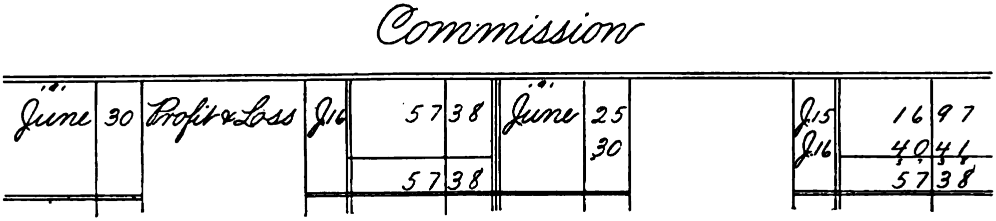
COMMISSION ACCOUNT.

§ 207. **The Object of this Account,** as used in this set, is to show the net amount received as commission for selling merchandise on consignment.

Debit Commission Account:	*Credit Commission Account:*
¶ 1. For rebates that reduce the income as shown by the credit side.	¶ 2. For amounts received from the consignor as commission, which is usually a certain per cent of the net sales.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net amount of commission received. It is shown as a special income on the Profit and Loss statement.

¶ 4. *To Close the Commission Account.* This account is closed into the Profit and Loss account by the journal entry, which closes the accounts affecting the Profit and Loss statement. After this journal entry has been posted, the account will balance and it is ruled with single and double red lines and footed with black ink.

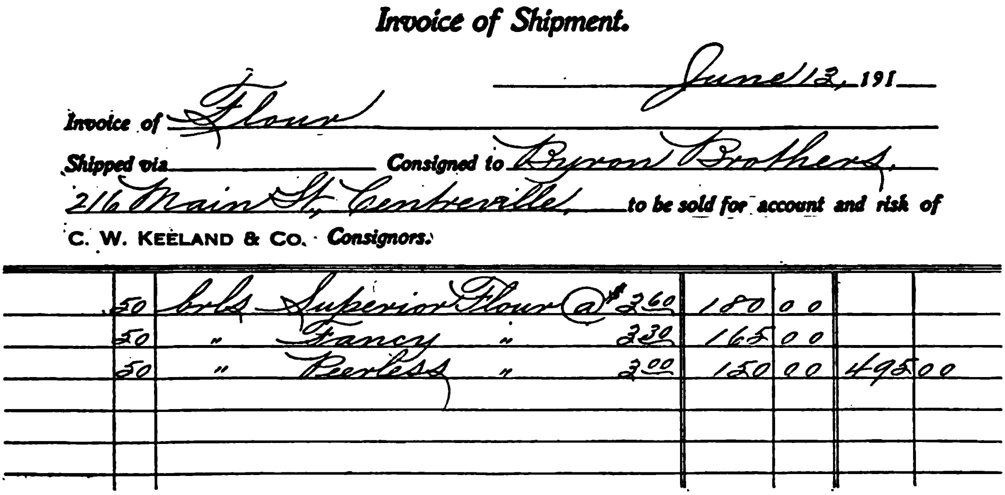


Commission

June	30	Profit & Loss	J16	57	38	June	25		J15	16	97
							30		J16	40	41
				57	38					57	38

Illustration No. 88, Commission Account.

§ 208. **Invoice of Shipment.** This is a business form used by the consignor on which to list the goods shipped on consignment, and is similar to a bill or invoice. It is customary to show the cost price of merchandise on the invoice of shipment that the consignee may know the cost and sell at such a price as will give the owner a profit. Illustration No. 89 shows the usual form.



Invoice of Shipment.

June 12, 191

Invoice of Flour

Shipped via ______ *Consigned to* Byron Brothers,

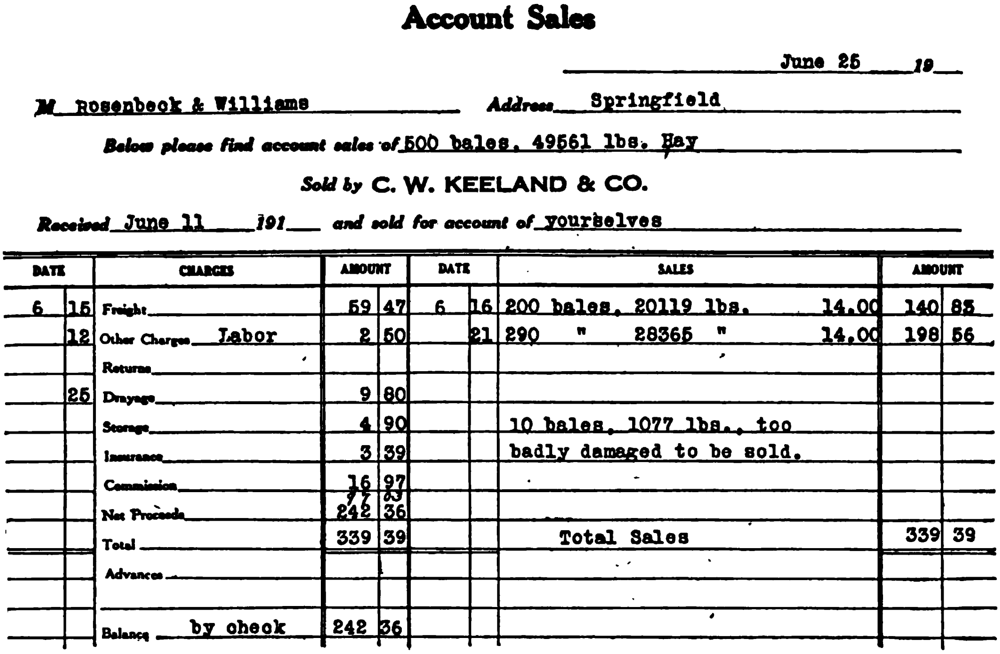
216 Main St, Centerville, *to be sold for account and risk of*

C. W. KEELAND & CO. *Consignors.*

50	bbls Superior Flour @ $2.60	180	00		
50	" Fancy " 2.30	165	00		
50	" Peerless " 2.00	150	00	495	00

Illustration No. 89, Invoice of Shipment.

§ 209. **Account Sales.** This is a business form on which the consignee makes his report to the consignor. It is arranged to show the quantity of merchandise received, the articles sold and the various charges. From this the owner may ascertain the quantity sold, the charges for selling, and the merchandise on hand belonging to the consignment. The net proceeds is the amount due the consignor (owner) for the sale of his merchandise; it is the gross sales less the charges (§ 206, ¶¶ 1, 3 and 4). The consignee may pay this or place it to the credit of the consignor's (owner) account. Illustration No. 90 shows a popular form of an account sales.



Account Sales

June 25 19__

M Rosenbeck & Williams Address Springfield

Below please find account sales of 500 bales, 49561 lbs. Hay

Sold by C. W. KEELAND & CO.

Received June 11 191__ *and sold for account of* yourselves

DATE		CHARGES	AMOUNT		DATE		SALES	AMOUNT	
6	15	Freight	59	47	6	16	200 bales, 20119 lbs. 14.00	140	83
	12	Other Charges Labor	2	50		21	290 " 28365 " 14.00	198	56
		Returns							
	25	Drayage	9	80					
		Storage	4	90			10 bales, 1077 lbs., too		
		Insurance	3	39			badly damaged to be sold.		
		Commission	16 97	97 03					
		Net Proceeds	242	36					
		Total	339	39			Total Sales	339	39
		Advances							
		Balance by check	242	36					

Illustration No. 90, Account Sales.

NOTE. The discussion of consignment accounts in §§ 205 and 206 is applicable to a business that has an occasional consignment inward or consignment outward, and not to one that does an extensive commission business. A very thorough discussion of consignment accounts is given in Applied Theory of Accounts by Paul J. Esquerre, C. P. A., published by the Ronald Press Co., New York, and Principles of Accounting by John Raymond Wildman, C. P. A., published by The William G. Hewitt Press, New York.

ACCOUNTS RECEIVABLE.

§ 210. **Accounts receivable** is a term used to represent the total amount due from the regular customers of the business. As a rule, these will be far more numerous than any other class of accounts. For this reason it is customary to group them in one or more special ledgers arranged alphabetically or geographically. When accounts with customers are kept in a special ledger or ledgers, or in a special part of the general ledger, it is better to keep one account which will show all the transactions in total. This may be named Accounts Receivable, Sales Ledger Account, A-C Ledger, D-E Ledger, City Ledger, Country Ledger, etc. Where the personal accounts are grouped in this manner and a special account kept to show the total, this account is used in taking the Trial Balance. When the Trial Balance has been proved, the accounts in the special ledger or ledgers are then proved with the account or accounts that represent them in the general ledger. The accounts in the general ledger are termed controlling accounts.

SALES LEDGER ACCOUNT.

§ 211. **The Object of this Account** is to show the total amount due on account from customers. It is a controlling account and represents the balance of the various accounts with customers in the sales ledger. This account is very popular with practicing bookkeepers because the Trial Balance from the general ledger may be proved to be correct without including the numerous accounts with customers, thus saving time in locating errors.

Debit Sales Ledger Account:

¶ 1. With the balance due from customers at the time the account is opened.

¶ 2. With the amounts charged to customers in the journal or cash book.

¶ 3. At the end of the month with the total credit sales for the month in the sales book.

Credit Sales Ledger Account:

¶ 4. With the total of the Sales Ledger column in the journal.

¶ 5. With the total of the Sales Ledger column on the debit side of the cash book.

¶ 6. With the total of the Sales Discount column on debit side of cash book.

¶ 7. *The Balance of this Account* shows the amount due from customers and must be the same as the total of the various balances shown by the accounts in the sales ledger. The balance is proved to be correct after the general Trial Balance has been made and proved. It is shown as a current asset on the Balance Sheet.

¶ 8. *To Close the Sales Ledger Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the smaller side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

Sales Ledger

191						191					
June	1	Balance	✓	3227	54	June	30		J7	197	65
		Due C A Howell	J5	575	92			Cash Receipts	C14	8307	62
	26	Meridan Hotel	J7	26	50			Sales Discount	C14	124	50
	30	Credit Sales	S36	6983	97			Balance	✓	2204	16
				10833	93					10833	93
July	1	Balance	✓	2204	16						

Illustration No. 91, Sales Ledger Account.

RESERVE FOR DOUBTFUL ACCOUNTS ACCOUNT.

§ 212. **The Object of this Account** is to show the net amount of the reserve set aside to take care of possible loss on account of doubtful accounts. No matter how careful a credit man may be in extending credit, some of the accounts are almost sure to prove worthless. Unless this is considered at the time the Statement of the Business is made, it will not show the real financial condition of the business. To provide for this a reserve is created at the close of the fiscal period, the amount of which is determined by the management.

Debit Res. for Doubtful Accts. Acct.:

¶ 1. With the amount that can not be collected from a customer, this entry being made at the time the account has proved worthless.

Credit Res. for Doubtful Accts. Acct.:

¶ 2. At the close of each fiscal period with the percentage of accounts receivable considered uncollectible by the management.

¶ 3. *The Balance of this Account* shows the net amount of reserve available to take care of worthless accounts. It may be shown on the Balance Sheet as a deduction from accounts receivable or as a liability, preferably as a deduction.

¶ 4. *To Close the Reserve for Doubtful Accounts Account.* This account is not closed unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the smaller side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

NOTE. Some bookkeepers close those accounts that are long past due and considered uncollectible into a Doubtful Accounts account and carry the balance in this account until assured that collection can not be made; the amount is then charged to the Reserve for Doubtful Accounts account. This plan may be advisable under certain circumstances, but as a rule it is better practice to leave the customer's account open in the ledger until it has proved uncollectible and then charge it direct to the Reserve account. The name of the account charged to the Reserve account should be written in the explanation column. If a loose leaf ledger is used, the sheet on which the account is shown may be removed from the current binder and placed in a special binder for future reference. Sometimes accounts that are apparently uncollectible are collected, hence the advisability of keeping a record of those that are charged off.

TRAVELING EXPENSE ACCOUNT.

§ 213. **The Object of this Account** is to show the expense incurred by traveling men, which includes railroad fare, hotel accommodations, salary, commission and other authorized expenditures. Traveling expenses are a part of the selling cost.

Debit Traveling Expense Account:

¶ 1. For the salaries of traveling men.

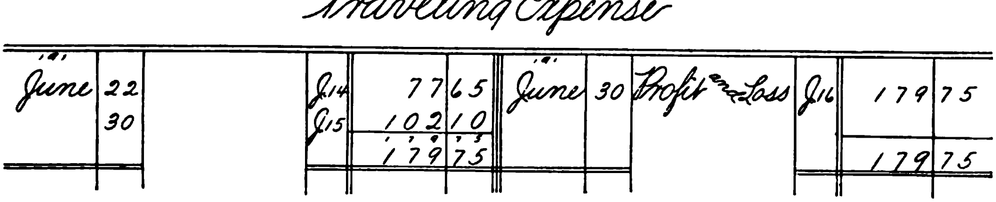
¶ 2. For amounts paid for railroad fare, hotel accommodations, livery, etc., as shown by each traveling man's weekly or monthly report of expenses.

Credit Traveling Expense Account:

¶ 3. For any amount received that decreases the charges made to this account.

¶ 4. *The Difference Between the Two Sides of this Account* shows the amount of expense incurred by traveling men. It is shown as a selling expense on the Profit and Loss statement.

¶ 5. *To Close the Traveling Expense Account.* This account is closed into the Profit and Loss account by the journal entry that closes those accounts affecting the Profit and Loss statement. After this entry is posted, it will balance and is ruled with single and double red lines and footed with black ink.



Traveling Expense

June	22		J14	77	65	June	30	Profit and Loss	J16	179	75
	30		J15	102	10						
				179	75						
				179	75					179	75

Illustration No. 92, Traveling Expense Account.

BOOKS OF ACCOUNT.

§ 214. **The same books** of original entry are used in June as in the preceding months, i. e., the journal, sales book, purchases book and cash book. The same form of sales book and purchases book is used, but a change is made in the form of journal and cash book. These are explained in the following sections.

§ 215. **Cash Book.** This has the same ruling as in the preceding month, the only difference being in the use of the columns.

¶ 1. *Debit Side.* Amounts received from customers are entered in the first column; discount on these payments, in the second column on the same line with the entry in the first column, and amounts received which affect accounts in the general ledger are entered in the third column.

¶ 2. *Credit Side.* Amounts paid that affect accounts in the general ledger are entered in the first column, discount on amounts paid creditors, in the second column, and amounts paid for selling expense are entered in the third column.

¶ 3. *To Prove Cash.* Foot each of the three columns on the debit side, entering the totals in small pencil figures just beneath the blue line on which the last amount is entered. Foot the three columns on the credit side and enter the totals of each in small pencil figures just beneath the line on which the last entry is made. From the total of the first and third columns on the debit side, subtract the total of the first and third columns on the credit side. The difference is the cash balance as shown by the last balance on the check stub, or this balance plus cash and checks in the cash drawer.

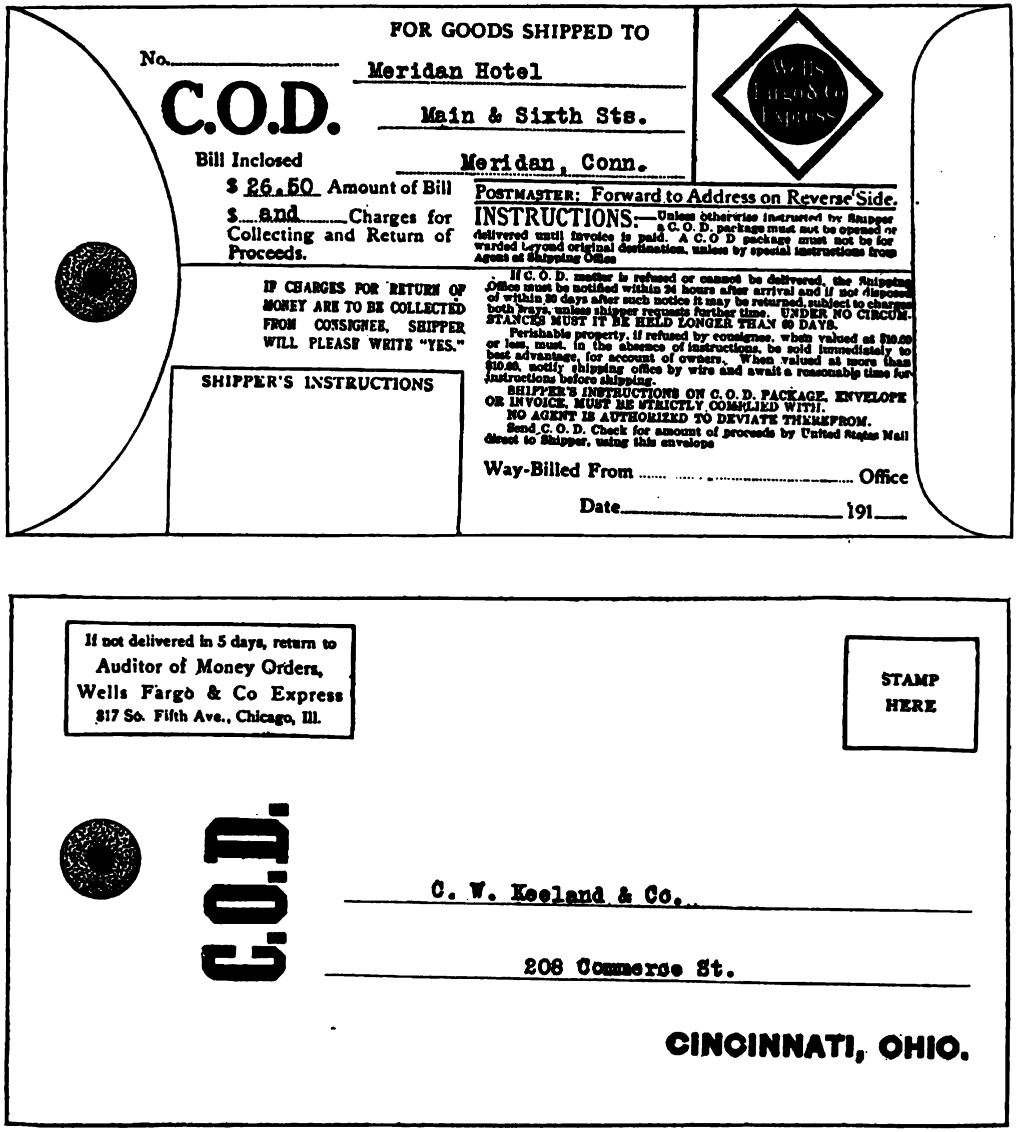
¶ 4. *To Post from the Debit Side of the Cash Book.* Each amount entered in the first column on the debit side is posted to the credit side of the account in the sales ledger written on the same line with it; each amount in the second column is posted to the credit side of the account in the sales ledger written on the same line with it; each amount in the third column is posted to the credit side of the account in the general ledger written on the same line with it. At the end of the month the total of the first column is posted to the credit side of the Sales Ledger account in the general ledger; the total of the second column is posted to the credit side of the Sales Ledger account, and also to the debit side of the Sales Discount account in the general ledger. The total of the third column is not posted. The total cash receipts are posted to the Cash account.

¶ 5. *To Post from the Credit Side of the Cash Book.* Each amount entered in the first column on the credit side is posted to the debit side of the general ledger account written on the same line with it; each amount in the second column is posted to the debit side of the general ledger account written on the same line with it. Amounts entered in the third column are not posted, the total being posted at the end of the month. At the end of the month the total of the first column is not posted; the total of the second column is posted to the credit side of the Purchases Discount account; the total of the third column is posted to the debit side of the Selling Expense account. The total payments are posted to the Cash account.

§ 216. **Special Column Journal.** This is ruled with three money columns, General Ledger Dr., General Ledger Cr., and Sales Ledger Cr. The special Sales Ledger column is necessary when a Sales Ledger account is kept in the general ledger, otherwise each credit to an account in the sales ledger would have to be posted twice. When a transaction affects the credit side of an account that appears in the sales ledger, the amount is entered in the Sales Ledger Cr. instead of the General Ledger Cr. column. Amounts entered in this column are posted in the sales ledger to the credit side of the accounts affected. At the end of the month the total of this column is posted to the credit side of the Sales Ledger account in the general ledger.

C. O. D. Shipments.

§ 217. **When a Sale** is made and the purchaser agrees to pay for the merchandise when it is delivered, the terms are C. O. D., that is, "Collect on Delivery." If the customer resides in the same city, the delivery may be made by wagon or automobile; if he resides out of the city, delivery is made by express or freight. The purchaser should be required to pay in advance a part of the sale price if the C. O. D. shipment is to be made by express or freight. This provides against loss on account of transportation charges if the shipment is refused.



FOR GOODS SHIPPED TO

No.

C.O.D.

Meridan Hotel

Main & Sixth Sts.

Meridan, Conn.

Bill Inclosed

$ 26.50 Amount of Bill

$ and Charges for Collecting and Return of Proceeds.

Wells Fargo & Co Express

POSTMASTER: Forward to Address on Reverse Side.

INSTRUCTIONS.—Unless otherwise instructed by Shipper a C. O. D. package must not be opened or delivered until invoice is paid. A C. O D package must not be forwarded beyond original destination, unless by special instructions from Agent at Shipping Office

IF CHARGES FOR RETURN OF MONEY ARE TO BE COLLECTED FROM CONSIGNEE, SHIPPER WILL PLEASE WRITE "YES."

If C. O. D. matter is refused or cannot be delivered, the Shipping Office must be notified within 24 hours after arrival and if not disposed of within 30 days after such notice it may be returned, subject to charges both ways, unless shipper requests further time. UNDER NO CIRCUMSTANCES MUST IT BE HELD LONGER THAN 60 DAYS.

Perishable property, if refused by consignee, when valued at $10.00 or less, must, in the absence of instructions, be sold immediately to best advantage, for account of owners. When valued at more than $10.00, notify shipping office by wire and await a reasonable time for instructions before shipping.

SHIPPER'S INSTRUCTIONS ON C. O. D. PACKAGE, ENVELOPE OR INVOICE, MUST BE STRICTLY COMPLIED WITH.

NO AGENT IS AUTHORIZED TO DEVIATE THEREFROM.

Send C. O. D. Check for amount of proceeds by United States Mail direct to Shipper, using this envelope

SHIPPER'S INSTRUCTIONS

Way-Billed From .... Office

Date.................. 191....

If not delivered in 5 days, return to
Auditor of Money Orders,
Wells Fargo & Co Express
817 So. Fifth Ave., Chicago, Ill.

STAMP HERE

C.O.D.

C. W. Keeland & Co.

208 Commerce St.

CINCINNATI, OHIO.

Illustration No. 92a, Both Sides of a C. O. D. Express Envelope.

¶ 1. *Freight Shipments.* When a C. O. D. shipment is to be made by freight, the package is addressed to the shipper at the address of the consignee. An "order" bill of lading (C. O. D. form) is used in place of the regular bill of lading. The name of the shipper appears in the space for that of the consignee, accompanied by the words "Notify C. A. Jones & Co." (name of consignee). When the bill of lading has been signed by the agent of the Railroad Company, a sight draft, drawn in favor of some bank or collection agency, is attached to the bill of lading and sent to the bank or agency for collection. The bill for the shipment is sent to the consignee, the terms being "C. O. D.," or "Sight Draft attached to Bill of Lading." When the shipment arrives at its destination, the consignee is notified and it is delivered to him upon presentation of the original bill of lading. Since this is attached to the sight draft, it is necessary for him to pay the draft before he can obtain the shipment.

The order bill of lading mentioned above does not differ materially from Illustration No. 73, except a blank space is provided on the back for the endorsement. This special form will be illustrated later in the course.

¶ 2. *Express Shipments.* When a C. O. D. shipment is made by express, the Express Company will not deliver it until the purchaser pays the charges and the value of the shipment. A bill is made for the amount of the shipment and enclosed in a special envelope provided by the Express Company. The envelope, which is marked in large letters, "C. O. D.," accompanies the package. When it reaches its destination, the express agent notifies the purchaser to call and receive it, or sends it out by wagon. Upon payment of the amount mentioned in the bill and the express charges, the agent delivers the package to the purchaser. The Express Company remits the amount of the bill to the seller by its express money order or C. O. D. check, deducting a charge for issuing the money order, unless this charge has been collected from the purchaser. If the seller wishes the purchaser to pay the charges for issuing the money order or C. O. D. check to be sent him in payment of the shipment, he must indicate this on the C. O. D. envelope. Illustration No. 92a shows the form of special envelope provided by the express company for containing the invoice for a C. O. D. shipment.

ANALYSIS AND COMPARATIVE RESULTS.

§ 218. **The Purpose of Making an Audit** is (a) to ascertain the correctness of the work of the bookkeeper, (b) to analyze the results, and (c) to obtain facts which will be of value to the management in the future operations of the business. All the work of the bookkeeper should be audited by an auditor at least once each year, but that part which relates to the final results and the comparison of these results with former periods may be performed by the bookkeeper. These comparative statements should be prepared in such form that the manager may get the most out of them in the shortest possible time. The reason for this is made evident by the following quotation from "Auditing, Theory and Practice" by Robert H. Montgomery, C. P. A.:

"The average business man has been trained from boyhood, to read facts and figures from continuous printed pages. The Trial Balance of a ledger means nothing to him, except that part of it which contains the accounts receivable and payable, and these must not be called 'Debit Balances' or 'Credit Balances' if we would avoid the chance of being misunderstood.

"Many intelligent people fail to grasp the usual and conventional hypothesis underlying the theory of double entry bookkeeping, and therefore facts or figures presented to them in a technical or formal shape may not accomplish the intended result.

"Probably the majority of business men have been shown Trial Balances from their books which mean nothing to them, and this applies to the usual monthly balance as well as to the one made after closing the books. A Balance Sheet in conventional form is perfectly clear to the eye trained to read and understand figures and is perhaps as concise and satisfactory an exhibit as could be desired *for the person who understands figures*, but thousands of business men frankly acknowledge that they do not grasp the full importance of a financial statement in the accepted form.

"But if the man who is entitled to know all the facts contained in these Balance Sheets can not or will not understand this method of presentation, it is the duty of the accountant to try another form and keep on trying until the results of his business become as interesting *reading* to him as the daily trade reports."

The information referred to in this quotation includes not only the results from the operations of the business for the current period, but also a comparison of these results with the operations for previous periods. The desired information includes the net cost of merchandise purchased, the net returns from sales, the gross profit on sales, the merchandise returned by customers (debit side of the Sales account), the rebates allowed customers (balance of the Sales Rebates and Allowances account), the freight cost, the cost of selling the goods (Selling Expense account), the cost of conducting the business (General Administrative Expense account), and the profit for the period. This information includes the amount of increase or decrease and the percentage of increase or decrease.

¶ 1. *Graphic Charts.* One of the best methods of presenting comparative facts is by the use of a chart. The charts portray the situation far more graphically than columns of figures, and in many cases are more valuable to the business man. The following illustrations show the practical application of the charts. Full explanation is given in connection with each illustration. If the percentage of increase or decrease is desired, a table showing these facts should accompany the chart. The best place for a chart is on the wall of a private office, or in a specially prepared holder.

Exercises in Purchases and Sales Charts. Prepare a chart for each of these three exercises. Exercise No. 76 is the same as Illustration No. 93. Use paper twice the size of the illustrations; rule in squares as in the illustrations and divide each square into five or ten units by lines.

Exercise No. 76, Purchases and Sales.

December 31, 1916, Purchases $5,000.00, Sales $4,000.00; January, 1917, Purchases $6,000.00, Sales $5,000.00; February Purchases $7,100.00, Sales $6,100.00; March Purchases $4,600.00, Sales $6,800.00; April Purchases $5,900.00, Sales $8,200.00; May Purchases $4,700.00, Sales $8,900.00; June Purchases $4,800.00, Sales $9,300.00; July Purchases $5,000.00, Sales $8,800.00; August Purchases $4,600.00, Sales $8,850.00; September Purchases $2,800.00, Sales $9,800.00; October Purchases $4,300.00, Sales $9,850.00; November Purchases $4,000.00, Sales $10,000.00; December Purchases $4,500.00, Sales $11,500.00.

Exercise No. 77, Purchases and Sales.

December 31, 1915, Purchases $4,200.00, Sales $3,900.00; January, 1916, Purchases $4,500.00, Sales $3,600.00; February Purchases $2,900.00, Sales $4,200.00; March Purchases $3,600.00, Sales $4,500.00; April Purchases $3,900.00, Sales $6,100.00; May Purchases $4,500.00, Sales $5,100.00; June Purchases $2,700.00, Sales $4,800.00; July Purchases $2,900.00, Sales $4,700.00; August Purchases $3,200.00, Sales $4,000.00; September Purchases $1,800.00, Sales $4,200.00; October Purchases $2,500.00, Sales $5,600.00; November Purchases $3,300.00, Sales $5,200.00; December Purchases $1,900.00, Sales $3,300.00.

Exercise No. 78, Purchases, Sales and Selling Expense.

Dec. 31, 1916, Purchases $2,721.35, Sales $3,826.01, Selling Expense $550.00; Jan., 1917, Pur. $2,852.35, Sales $3,946.22, S. Expense $525.87; Feb. Pur. $3,129.-75, Sales $4,456.29, S. Expense $603.55; Mar. Pur. $2,544.19, Sales $5,175.62, S. Expense $725.00; Apr. Pur. $3,987.62, Sales $4,998.75, S. Expense $800.00; May Pur. $2,652.91, Sales $6,547.22, S. Expense $950.00; June Pur. $1,998.45,

(*Concluded on page 175.*)

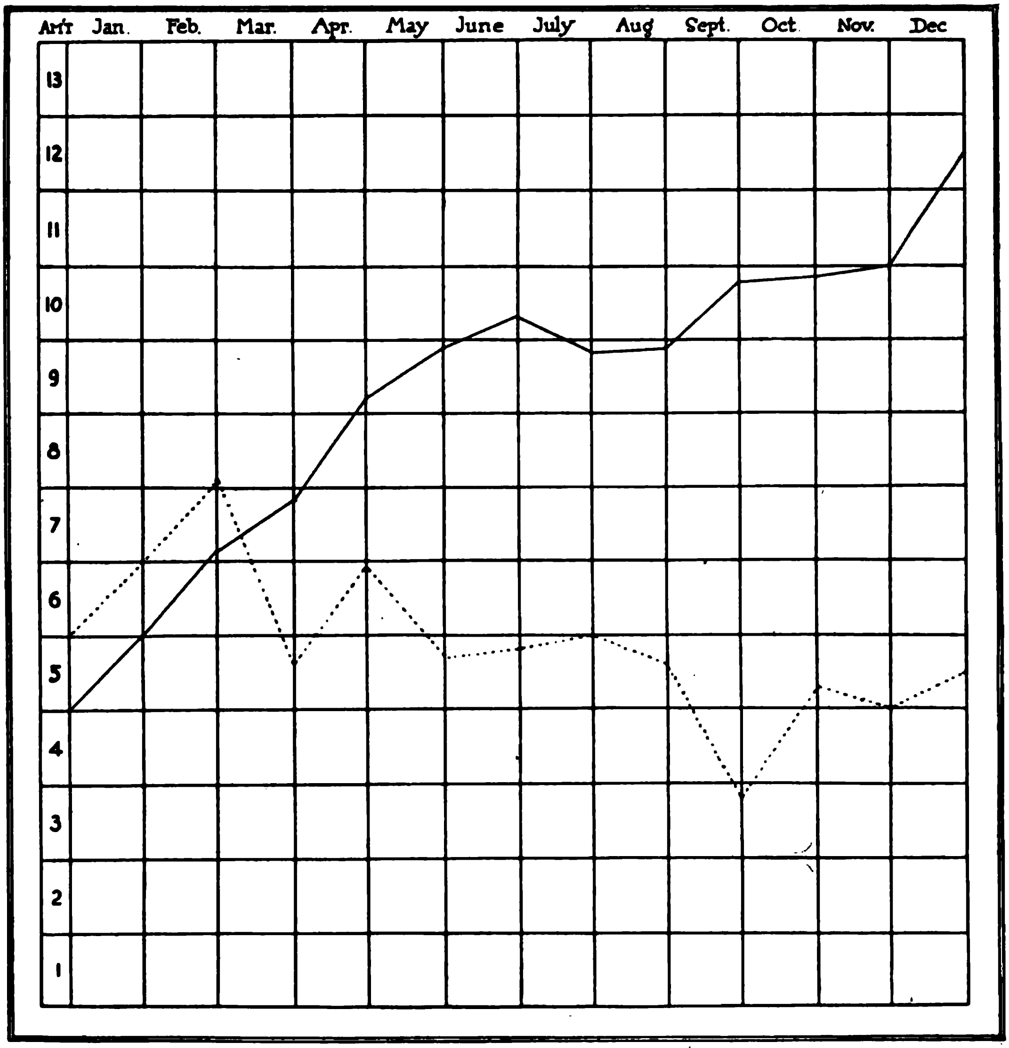


Illustration No. 93, Purchases and Sales Chart.

EXPLANATION. The purpose of this chart is to illustrate the cost of merchandise purchased, and the returns from sales for the year 1917. The figures are shown in Exercise No. 76. The solid line shows the sales and the dotted line the purchases, each beginning with December at the left of the January column and ending with December at the right of the December column. The figures at the left represent thousands; the months are given at the top. In practice work, the chart should be made much larger than the illustration. Special ruled paper may be purchased at a stationery store for completing these charts; if not available, each square should be divided horizontally into ten equal units to provide for hundreds.

(*Exercise No. 78, Continued from page 174.*)

Sales $5,152.78, S. Expense $825.00; July Pur. $2,950.00, Sales $4,865.00, S. Expense $750.00; Aug. Pur. $3,175.50, Sales $4,900.25, S. Expense $758.00; Sept. Pur. $2,192.65, Sales $5,548.90, S. Expense $850.00; Oct. Pur. $2,655.90, Sales $6,156.80, S. Expense, $1,005.00; Nov. Pur. $1,998.50, Sales $5,642.90, S. Expense $950.00; Dec. Pur. $1,429.75, Sales $5,148.60, S. Expense $875.00.

Use $100.00 units in the purchases and sales, and $50.00 units in the selling expense; show the selling expense at the bottom of the chart. Let each space equal $100.00 and divide in ten divisions.

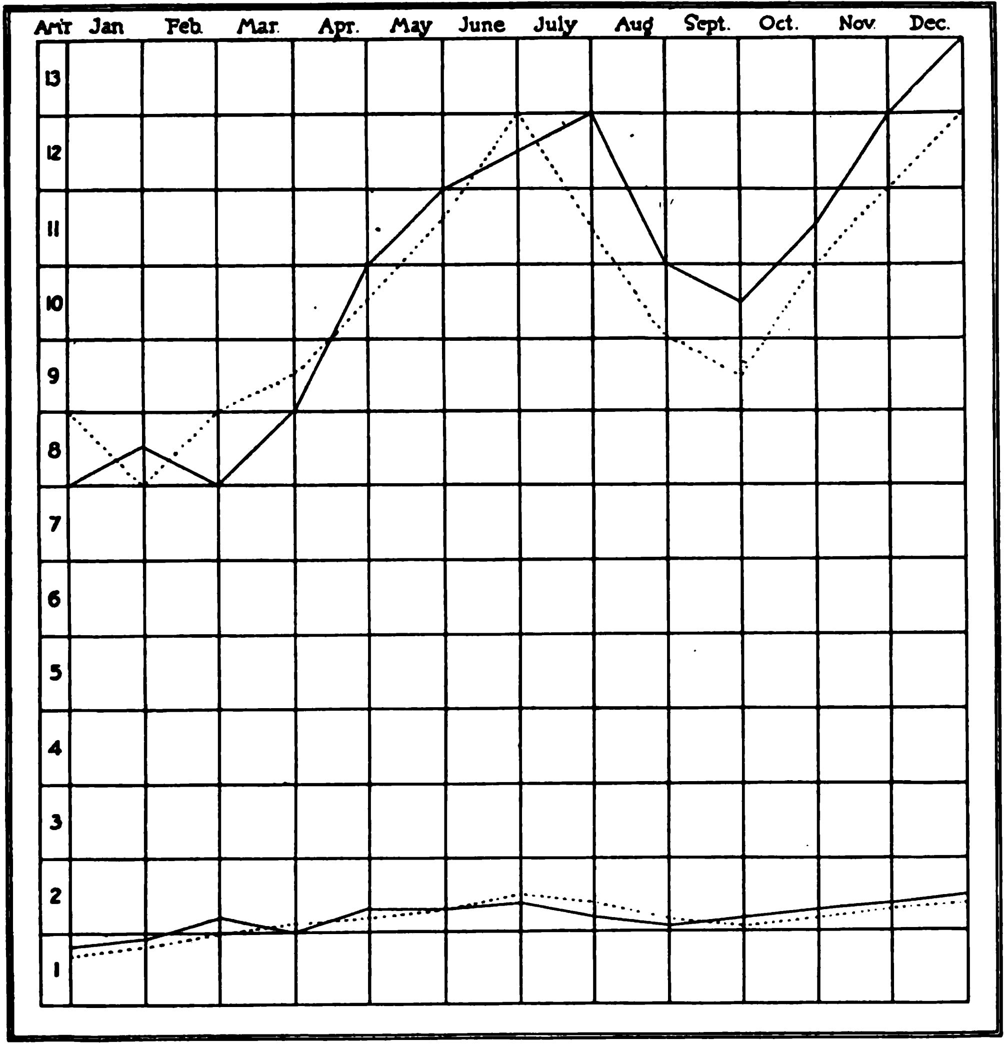


Illustration No. 93a, Chart Showing Comparative Sales and Selling Expense.

EXPLANATION. The purpose of this chart is to illustrate the monthly sales for 1917 compared with the monthly sales for 1916, also the expense of making the sales for 1917 compared with the expense of making the sales in 1916. The figures are given in Exercise No. 79. The sales for 1917 are represented by the solid line at the top, and the sales for 1916 by the dotted line at the top. The selling expense for 1917 is represented by the solid line at the bottom, and the expense for 1916 by the dotted line at the bottom, each beginning with December at the left of the January column and ending with December at the right of the December column. The figures at the left represent thousands. The facts shown by this chart are valuable to the management in planning for 1918 business.

Exercises in Comparative Charts. Prepare a chart for each of these two exercises. Exercise No. 79 is the same as Illustration No. 93a.

Exercise No. 79, Sales and Selling Expense.

	Sales		Selling Expense	
	1916	1917	1916	1917
December, 1915........	$8,000.00	$7,000.00	$ 700.00	$ 800.00
January..............	7,000.00	7,500.00	800.00	900.00
February.............	8,000.00	7,000.00	1,000.00	1,200.00
March...............	8,500.00	8,000.00	1,100.00	1,000.00
April................	9,500.00	10,000.00	1,200.00	1,300.00
May.................	10,600.00	11,000.00	1,300.00	1,300.00
June................	12,000.00	11,500.00	1,500.00	1,400.00
July.................	10,500.00	12,000.00	1,400.00	1,200.00
August..............	9,000.00	10,000.00	1,200.00	1,100.00
September...........	8,500.00	9,500.00	1,100.00	1,200.00
October.............	10,000.00	10,500.00	1,200.00	1,300.00
November...........	11,000.00	12,000.00	1,300.00	1,400.00
December...........	12,000.00	13,000.00	1,400.00	1,500.00

Exercise No. 80, Sales and Selling Expense.

	Sales		Selling Expense	
	1916	1917	1916	1917
December, 1915.......	$25,000.00	....	$2,800.00	....
January..............	26,900.00	$27,500.00	3,000.00	$3,200.00
February.............	28,265.00	28,000.00	3,100.00	3,300.00
March...............	29,750.00	31,500.00	3,200.00	3,500.00
April................	28,500.00	32,000.00	3,300.00	3,600.00
May.................	30,500.00	31,000.00	3,000.00	3,500.00
June................	33,650.00	34,000.00	3,500.00	4,000.00
July.................	31,500.00	29,100.00	3,000.00	3,200.00
August..............	26,500.00	25,000.00	2,800.00	2,900.00
September...........	30,500.00	32,400.00	3,600.00	4,000.00
October.............	32,750.00	33,500.00	3,600.00	4,000.00
November...........	31,800.00	36,000.00	3,500.00	4,200.00
December...........	27,500.00	28,500.00	3,300.00	3,800.00

QUESTIONS.

1. Define consignments. (§ 204.)
2. What is the object of the Consignment Outward account? (§ 205.)
3. How is the balance shown on the Statement of the Business? (§ 205, ¶ 3.)
4. How is the inventory shown on the Statement of the Business? (§ 205, ¶ 5.)
5. How would the management ascertain the profit on each consignment?
6. What is the object of the Consignment Inward account? (§ 206.)
7. Distinguish between Consignments Inward and Consignments Outward.
8. How is the balance of the Consignment Inward account shown on the Statement of the Business? (§ 206, ¶ 7.)
9. How is the inventory of merchandise on hand belonging to consignments inward indicated on the Statement of the Business? (§ 206, ¶ 7.)
10. What is the object of the Commission account? (§ 207.)
11. How is the balance shown on the Statement of the Business? (§ 207, ¶ 3.)
12. What is the purpose of an invoice of shipment? (§ 208.)
13. What is the purpose of an account sales? (§ 209.)
14. Define accounts receivable. (§ 210.)
15. What is the object of the Sales Ledger account? (§ 211.)
16. How is the balance shown on the Statement of the Business? (§ 211, ¶ 7.)
17. What is the object of the Reserve for Doubtful Accounts account? (§ 212.)
18. What is the object of the Traveling Expense account? (§ 213.)
19. How is the balance shown on the Statement of the Business? (§ 213, ¶ 4.)
20. Describe the method of making C. O. D. freight and express shipments.

Part Three—Corporation.

CORPORATION BOOKKEEPING AND ACCOUNTING, WHOLESALE GROCERY BUSINESS, J. A. WHITNEY & CO., INC., PROPRIETOR.

JULY AND AUGUST.

§ 219. Introduction. The object of this set is to illustrate the application of the principles of accounting in a business conducted as a corporation, and give further practice in classifying accounts and recording transactions. The special features of this set in addition to corporation accounting are as follows: accounts with selling expenses, Branch Store account, accounts in connection with a manufacturing business, special ruling in all books of original entry, notes receivable book and notes payable book as books of original entry, cash journal, and many other scientific methods of recording transactions.

The Transactions to be Recorded are separate from the discussion of the principles (§§ 220–290), and may be represented by incoming vouchers (reproduced business papers) or a printed record. The final results are the same with either method.

IMPORTANCE OF CORRECT ACCOUNTING.

"Correct records of all transactions are the fundamental basis of the effective economic regulation of the affairs of every person, partnership, corporation and government.

"A correct tabulation is not in itself a correct record. A record, to be correct, must be kept in a way which shows, by proper grouping, the true relation between every factor involved in the cost of living, cost of distribution, costs of doing business, and in the final statement, showing the profit or loss for the fiscal year, or for a period of years. . . . Just judgments are rendered only when based on a correct knowledge of facts.

"There is a wide difference between honest accounting and scientific accounting. One may have a record that will honestly account for every dollar received and expended, without having a record that will give any intelligent information regarding the true relation between economic factors involved in statements of costs or of profits or losses. The records of all accounts should be intelligently grouped to show the economic effect of every factor essential to the true statement of the costs or of profits or losses. Far greater harm results from unintelligent, than from dishonest, accounting.

"In practical affairs, honest accounting is the rule, dishonest accounting the exception. . . .

"Charges of dishonesty are more frequently based on conclusions drawn from, or on the results of a policy guided by, unintelligent accounting, than upon dishonest entries showing receipts or disbursements. Scientific accounting safeguards honesty. It prevents dishonesty. Losses caused by ignorance are enormously greater than losses caused by dishonesty. . . . Incompetent accounting is the cause of more failures than all other causes combined. It gives incorrect information as to costs of living, products and services, which leads to the acceptance of insufficient compensation, a course that must result in failure with a certainty from which there is no escape. No one can pay three dollars and sell for two dollars without impairing his capital. If he makes the transaction often enough, his entire capital will be exhausted; his failure will be announced. Incompetent accounting is the cause of retarded economic development. It fails to show where economies may be effected that will enhance profits or give advantages in meeting competition. . . .

"There can be no effective economic regulation without scientific accounting. This is true of all regulation. It applies with equal force to the regulation of private affairs by the person interested; to the regulation of partnership affairs by the partners interested; to the regulation of corporate affairs by the shareholders interested, and to the regulation of public affairs by the citizens interested. There can be no scientific accounting without a grouping of items that will correctly show the relation to each other of every essential economic factor in all statements of costs of living, costs of products, and costs of services, whether rendered by a public service corporation or by the Government."—ALLEN RIPLEY FOOTE, *President of the International Tax Association and Commissioner of the Ohio State Board of Commerce.*

CORPORATIONS.

§ 220. **A corporation** is defined by the Supreme Court of the United States as "An association of individuals united for some common purpose, and permitted by the law to use a common name, and to change its members without dissolution of the association." This means that the corporation is in reality an artificial person, one created by law. When created and brought into existence by law, it has the same privileges as any citizen governed by the same law. All its contracts are made under the corporate name, and in its legal relations it is known like an individual only by its name.

¶ 1. *Comparison of a Corporation with a Partnership.* A corporation differs from a partnership in the *manner of organization*, *method of conducting the business*, *responsibility of investors*, and the *manner of dissolution.* It agrees in the object for which it is formed—the combination of capital for the mutual benefit of those interested.

§ 221. **Manner of Organization.** A partnership is formed by contract. A corporation is created by authority of the laws of the state in which it is organized. The method of procedure for organizing a corporation differs in the various states. The following are the requirements of the state of New York: "Except as provided in section 2a of this chapter, three or more persons may become a stock corporation for any lawful business purpose or purposes, by making, signing, acknowledging, and filing a certificate which will contain:

1st. The name of the proposed corporation.

2d. The purpose or purposes for which it is to be formed.

3d. The amount of capital stock, and if any portion be preferred stock, the preferences thereof.

4th. The number of shares of which the capital stock shall consist, the value of which shall not be less than five nor more than one hundred dollars, and the amount of capital not less than five hundred dollars, with which the said corporation will begin business.

5th. The city, village or town in which its principal business office is to be located. If it is to be located in the city of New York, the borough therein in which it is to be located.

6th. Its duration.

7th. The number of its directors, not less than three.

8th. The names and postoffice addresses of the directors for the first year.

The above applies to corporations that are to engage in a mercantile or manufacturing business, and does not include those organized to engage in transportation, banking, education, etc., nor those for charitable purposes.

The certificate must be signed by the three or more persons who make application for the charter, their signatures acknowledged by a Notary Public or some county official, and this certificate recorded by the proper county and state official.

§ 222. **Method of Conducting the Business.** The affairs of a partnership are conducted by the partners or a manager designated by them. The affairs of a corporation are in charge of officers who are elected by the board of directors. The stockholders (investors) elect the board of directors, each stockholder having as many votes as he holds shares of stock. As a rule, the officers are elected from the board of directors, and usually consist of a president, vice-president, secretary, and treasurer.

§ 223. **Responsibility of Investors.** Each partner is individually responsible for all the debts of a partnership, whether contracted by him, some other partner, or an agent. If a partnership becomes insolvent, the creditors can collect the entire amount of their indebtedness from any one partner if the partnership property is not sufficient to pay the debts. A stockholder in a corporation is not individually responsible for any debts contracted by the corporation. However, if the corporation becomes insolvent, and the assets do not pay all of the obligations, some states hold each stockholder individually responsible for the value of the shares which he owns; other states relieve him of this responsibility. To illustrate: The Consolidated Manufacturing Company is a corporation capitalized at $50,000.00, consisting of five hundred shares, par value $100.00 each. J. C. Mason owns five shares of this stock. The corporation becomes insolvent, and after all of the property has been sold, there remains an indebtedness of $2,000.00. The creditors could collect from Mr. Mason five five-hundredths of this amount, which is in proportion to the number of shares of stock that he owns. This rule is not definite, because the different states have imposed different conditions. The above serves to illustrate the responsibility of a stockholder in those states where each stockholder is held responsible for his proportionate part of the debts of the corporation.

§ 224. **Manner of Dissolution.** A partnership continues during the time specified in the contract, unless dissolved by a decree of court, by agreement, or by the death, withdrawal, or disability of a partner. During the existence of the partnership, no partner has a right to sell any or all of his interest without the consent of the others interested. Should he sell under protest, this not only dissolves the partnership, but holds him individually responsible to the other partners for any damage caused them by his act. A corporation continues during the time stated in the charter. The death or legal disability of one or more shareholders does not affect the business of the corporation. Any stockholder may sell his stock without consulting the others (unless restricted in the certificate of stock), and this transfer does not in any way affect the business of the corporation. When transferred on the books of the company (and the secretary must transfer all stock when requested to do so by stockholders), the new owner becomes a stockholder with the same rights and privileges as the former one. In other words, the interest or shares in a corporation are considered as personal property, which may be sold without consulting other stockholders. On the other hand, an interest in a partnership is held by a special contract, which does not permit any partner to dispose of it without the consent of the other partners.

Since the acts of a stockholder have no effect on the business of the corporation, and the charter may be renewed any number of times, it is sometimes said that "A corporation never dies".

§ 225. **Object of Organization.** A partnership and a corporation are both organized for the purpose of conducting a business for profit. Generally, no person cares to assume all the responsibility of a new enterprise, hence he combines his capital with that of others, thus distributing the loss or profit that may arise from the investment. As a rule, a partnership is formed when the amount of the investment is small, and each one of the investors is to take an active part in the business. When a large amount of capital is required, a corporation is formed and the necessary funds are collected by selling the stock. A corporation offers an opportunity for the investment of small amounts by those who are not in a position to take an active interest in the business. While the same organization could be effected by a partnership, yet each investor would be responsible for the debts created by the partners who had active charge of the business, which would not be satisfactory.

TERMS PECULIAR TO A CORPORATION.

§ 226. **Charter.** The charter is a written document setting forth the facts required by the law, and is the corporation's authority for doing business. It gives the name of the corporation, the amount of the capital stock, place of business, nature of the business, time of existence, and such other information as is required by the state law under which it is granted. It must be signed by the required number of charter members; i. e., the persons who make application for the charter. The number of charter members necessary to organize a corporation is governed by the state law, but is usually not less than three.

§ 227. **Capital Stock.** The capital stock is the total stock (par value) issued and outstanding. The capital stock mentioned in the charter is the amount of stock that can be issued, but it is not necessary to issue all of this unless required to do so by state law. The capital stock is represented by a specified number of shares of equal value. This value is fixed by the charter members, and must be stated in the charter. It may be one dollar, five dollars, ten dollars, fifty dollars, one hundred dollars, or any other amount that may be selected by the charter members, unless the state law governs the minimum or maximum value of each share. As stated, it is not necessary for all of the shares designated in the charter to be sold and paid for before the corporation begins business. The minimum number of shares which can be issued is usually designated by the law under which the corporation is organized. A corporation that has a capital stock of $100,000.00, with a par value of $100.00 per share, would consist of one thousand shares. A corporation that has a capital stock of $1,000,000.00, with a par value of $25.00 per share, would consist of forty thousand shares.

§ 228. **Capital.** The capital of a corporation or any business is the difference between the assets and liabilities. The capital stock is the par value of the stock issued, and may be more or less than the capital, depending upon the net value of the assets. The greater the excess in value of the capital over the capital stock, the greater the value of each share; thus, if a corporation with a capital stock of $100,000.00 has a capital (net assets) worth $200,000.00, then each share would be worth double the par value. On the other hand, if the capital (net assets) is only $90,000.00, each share would be worth only 90c on the dollar.

The student must not confuse the capital with the capital stock. He must keep in mind the fact that the *capital stock* is the par value of the shares issued, and the *capital* is the net worth of the business. The value of the *capital stock* is shown by the Capital Stock account, which is the par value of all the shares issued. The value of the *capital* is represented by the Capital Stock account and Surplus account.

§ 229. **Certificate of Stock.** The certificate of stock is a printed form issued to the stockholder as a receipt for the money he has invested in the corporation. It shows the date of issue, the number of shares purchased, and the par value of each share. The certificate is signed by the legally authorized officers, usually the President and Secretary.

Stock certificates are bound in book form, and provided with a stub. The facts on the certificate are shown on the stub for reference. When a certificate is sold by the stockholder to whom it is issued, and a new stockholder has it transferred on the books, these facts are shown on the stub of the original certificate, and also on the stub of the new certificate issued to the new stockholder. The certificate stubs are numbered consecutively, and the account kept with each stockholder in the stock ledger should show the number of the stock certificates which he owns. If a stockholder owns more than one certificate, his account in the stock ledger should show the number and value of each in a separate entry.

§ 230. **Stockholder.** A stockholder is one who owns stock in the corporation. As evidence of this ownership, he holds one or more certificates which show the number of shares he owns. It is not necessary (unless provided by state law) for the certificate to be recorded on the books of the corporation, but if the stockholder wishes to enjoy the privileges granted a stockholder, he must have his certificate registered so that the officers of the corporation will know who owns the various shares of stock. This information is especially necessary at the time a dividend is declared. A stockholder does not own any part of the assets of the corporation, but shares with the other stockholders in the distribution of the assets when the corporation is dissolved. If he wishes to dispose of his interest before dissolution, he can do so by selling his stock. The corporation is, itself, a legal entity, and the ownership of the business vests in it, and not in the stockholders.

There are two kinds of stock that may be issued by corporations: *common stock*, and *preferred stock*.

§ 231. **Common Stock.** All stock issued by a corporation is common stock unless otherwise designated. The owners of common stock share in the profits of the corporation in proportion to the number of shares they own. Thus, if a person owns one hundred shares in a corporation of one thousand shares, he will be entitled to one-tenth of the profits set aside by the board of directors for distribution to the holders of common stock. He receives the same proportionate part of the profit as the other stockholders, and does not enjoy any special privileges.

§ 232. **Preferred Stock** is issued with the provision that a fixed per cent will be paid to the holders thereof before the holders of the common stock receive any dividend. There are two classes of preferred stock, cumulative and noncumulative. In the case of cumulative preferred stock, if the profit for any year is not sufficient to pay the rate of dividend indicated in the certificate, the holder of this stock is entitled to this dividend out of the profits of succeeding years before the holders of the common stock receive any share of the profits. In the case of noncumulative preferred stock, if the profit for any year is not sufficient to pay the rate of dividend indicated in the certificate, the holder thereof does not have any right against former or future profits because of his failure to receive during the current period the full dividend mentioned in the certificate.

§ 233. **Treasury Stock.** Treasury stock is capital stock of a corporation that has been issued and afterwards acquired by the corporation. A corporation has the right to purchase its own capital stock, unless the state law under which it is organized forbids this. If for any reason the corporation does purchase its own stock, this becomes an asset, and is held in the treasury until disposed of. Unissued stock is not treasury stock, though sometimes it is erroneously considered as such. No matter what amount of capital stock is stated in the charter, its capital stock is the par value of the stock sold and issued. Stock that is not issued can not be an asset of the corporation, because it has no real value. The fact that all the stock authorized by the charter has not been issued, does not enable the corporation to call this unissued stock an asset, and it should never be considered as such.

§ 234. **Value of Stock.** The value of stock depends upon the dividend paid and the financial condition of the corporation. The stock may have four different values: par value, market value, book value, and real value.

¶ 1. *The Par Value* is the amount stated in the certificate.

¶ 2. *The Market Value* is the price at which the stock is quoted on the stock exchange or at which it can be sold.

¶ 3. *The Book Value* is the amount that would be received for each share of stock if the company could be liquidated and realize the assets at the figures at which they appear on the books.

¶ 4. *The Real Value* is the amount that would be received for each share from an actual liquidation of the assets. It will be the same as the book value if full value is received for all assets.

§ 235. **Dividend.** The dividend is that part of the profit which is distributed among the stockholders. As a rule, all of the profit is not distributed, because it might impair the working capital. When the statement of the business is made at the close of the fiscal period, the amount of property to be distributed is designated, and this is credited to a Dividend account. As explained in § 231 and § 232, this dividend is divided among the stockholders, according to the kind of stock they hold. If all the stock is common, then the dividend is divided equally among the stockholders, in proportion to the amount of stock each holds. If any stock is preferred, the amount of the fixed dividend to be paid preferred stockholders is paid to them, and the remainder is distributed among the holders of common stock, except as explained in § 232. Under the common law, the holders of common stock received the same per cent as preferred stockholders, but in the majority of the states the practice has been changed by statute.

§ 236. **Assessment.** When the business has been conducted at a loss, it is sometimes necessary to secure additional funds to carry on the business. This may be done by levying on each stockholder. This is the reverse of a dividend, but is paid in the same proportion, that is, each stockholder pays the proportionate part of the assessment according to the number of shares which he owns. Assessments are levied by authority of the board of directors. As stated, each stockholder pays his part unless he holds stock that is non-assessable, that is, not subject to assessment.

§ 237. **Surplus.** The amount of the dividend is determined by the board of directors. It is not the best policy to pay out all the profit in dividends. However, the conditions under which the corporation is working will determine this. That part of the profit which is not distributed is carried as a surplus, and is shown by the balance of the Surplus account.

§ 238. **Bonds.** A bond is a long time note, arranged in a special form. Bonds are usually issued in denominations of one hundred, five hundred or one thousand dollars, and secured by a mortgage on real estate or personal property, which is held in trust by a trustee. Bonds are issued by corporations to secure capital with which to operate the business. Bonds may also be issued by a public corporation, in which case they are paid from funds secured by taxation.

§ **239. Sinking Fund.** This is a special fund created for the purpose of providing money with which to pay bonds or other indebtedness at maturity. This fund is created out of the assets of the corporation and carried on the books as a separate asset.

§ **240. Opening Entry for Corporation Books.** Before recording any transactions in connection with a business to be conducted as a corporation it is necessary to open the books. As a rule two entries are necessary, one to enter on the books the capital stock authorized by the charter, and the other to open accounts with the property received in payment of the stock sold. In the first entry Unissued Capital Stock is debited and Capital Stock credited for the par value of the stock authorized by the charter. In the second entry, some asset account or accounts are debited and Unissued Capital Stock account credited. If all the stock authorized by the charter is sold, the Unissued Capital Stock account will balance, and the Capital Stock account will show the authorized capital; if all the stock is not sold the par value of the unsold stock will be shown by the balance of the Unissued Capital Stock account. The first entry is made in the journal, and the second in the cash book, or cash book and journal, depending upon the nature of the property received in payment for the stock sold. Each stockholder is credited with the stock purchased, either from the certificate stub or an entry in the stock journal.

¶ 1. *Changing from a Partnership to a Corporation.* The first entry is to place on the books the par value of the capital stock authorized by the charter. In this entry Unissued Capital Stock is debited and Capital Stock credited. The second entry is to transfer the assets of the partnership to the corporation. Each account showing an asset and the Partners' Capital accounts are debited and each account showing a liability and the Unissued Capital Stock account are credited. When the second entry is posted, the capital accounts of the partners will balance and the assets and liabilities of the partnership will show on the books of the corporation. Under no circumstances should treasury stock enter into this transaction because it can not be treasury stock until it has been issued as explained in § 233.

¶ 2. *Entry when Stock is Sold on Installment.* When stock is sold on the installment plan and not issued until the amount of the subscription is paid in full, Cash is debited and a Subscribers to Capital Stock account is credited for partial payments of the stock. An account is opened in a special ledger with each stockholder; this account is charged with the par value of the stock and credited with the payments. The Subscribers to Capital Stock account is a controlling account for the accounts in this special ledger. When all the subscriptions have been paid the stock is issued. At that time the Subscribers to Capital Stock account is debited and the Unissued Capital Stock account credited.

¶ 3. *Good Will.* When an individual or partnership business is changed to a corporation and a fixed amount is paid for the good will of the business, this is charged to a Good Will account. Stock is issued to the proprietor or partners for the value of this good will according to the agreement between the new organization and the former owners. Under no circumstances should the Capital Stock of the corporation be inflated by the use of the Good Will account.

ACCOUNTS PECULIAR TO A CORPORATION.

§ **241. The Accounts for a Corporation**, with the exception of the capital accounts, are the same as those for a partnership if the nature of the business is the same. Capital Stock, common and preferred, Surplus, Dividend, and Treasury Stock are the usual accounts that relate to the capital of a corporation.

§ **242. Outline of Accounts.** The outline on the following page is based on the classification given in §§ 28-35. The purpose of this outline is to show the student that there is no change made from the fundamental principles learned in the first set even though many more accounts are necessary.

OUTLINE OF ACCOUNTS KEPT IN THE CORPORATION SET.

- Current Assets
  - Cash.
  - Petty Cash Fund.
  - Notes Receivable.
  - Accounts Receivable.
  - Inventory—Merchandise and Branch Store.
  - Treasury Stock.
  - Accrued Assets.
- Fixed Assets
  - Office Equipment.
  - Store Fixtures.
  - Delivery Equipment.
  - Machinery and Equipment.
  - Good Will.
- Deferred Charges to Operations.
- Current Liabilities
  - Notes Payable.
  - Accounts Payable.
  - Accrued Liabilities.
- Valuation
  - Reserve for Depreciation of Office Equipment.
  - Reserve for Depreciation of Store Fixtures.
  - Reserve for Depreciation of Delivery Equipment.
  - Reserve for Depreciation of Machinery and Equipment.
  - Reserve for Doubtful Accounts.
- Capital
  - Capital Stock.
  - Unissued Capital Stock.
  - Surplus.
  - Dividend.
- Trading
  - Merchandise
    - Inventory.
    - Purchases.
    - Freight In.
    - Purchases Discount.
    - Sales.
    - Sales Rebates and Allowances.
    - Sales Discount.
  - Candy Dept.
    - Inventory.
    - Raw Materials.
    - Labor.
    - Manufacturing Expense.
    - Sales.
- Operating Expense
  - General Administrative Expense.
  - Selling Expense
    - Salaries in the Selling Dept.
    - Freight Out.
    - Advertising.
    - Traveling Expense.
    - Warehouse Expense.
    - Delivery Expense.
- Other Profits and Losses
  - Branch Store.
  - Building Expense and Revenue.
  - Interest.
  - Commission.
  - Loss on Doubtful Accounts.

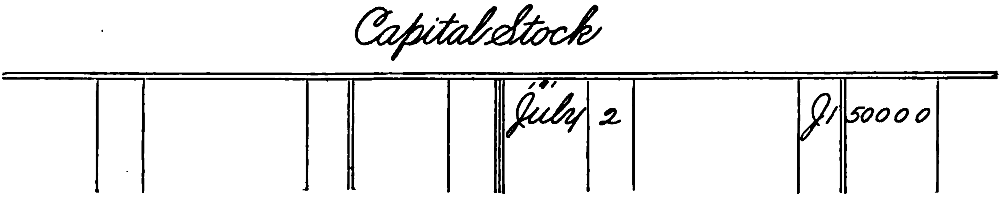
CAPITAL STOCK ACCOUNT.

§ 243. **The Object of this Account** is to show the capital stock authorized by the charter. If both common and preferred stock are issued, it is necessary to keep two capital stock accounts, one with the former and the other with the latter. Each would be debited and credited in the same manner.

Debit the Capital Stock Account:	*Credit the Capital Stock Account:*
¶ 1. For the par value of stock cancelled by legal authority, or when the corporation is dissolved.	¶ 2. For the par value of the capital stock authorized by the charter.

¶ 3. *The Balance of this Account* shows the par value of capital stock authorized by the charter. If all the stock authorized has been sold, the balance of this account shows the outstanding capital stock of the corporation. If any part of it has not been sold, the value of this is shown by the Unissued Capital Stock account, and the difference between the two balances shows the par value of the capital stock outstanding. Both are shown as a part of the capital of the corporation on the Balance Sheet.

¶ 4. *To Close the Capital Account.* This account is not closed unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the new page, are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.



Capital Stock

July	2	J1	50000

Illustration No. 94, Capital Stock Account.

UNISSUED CAPITAL STOCK ACCOUNT.

§ 243a. **The Object of this Account** is to show the par value of the unissued stock, that is, the stock authorized by the charter but not sold. It is a valuation account and qualifies the Capital Stock account which shows the capital authorized by the charter. As a rule, all the stock authorized by the charter is sold when the corporation is organized or within a short time thereafter, hence the account appears on the books only at the beginning of the business, and is closed when all the stock has been sold.

Debit the Unissued Capital Stock Account:	*Credit the Unissued Capital Stock Account:*
¶ 1. For the par value of the capital stock authorized by the charter.	¶ 2. For the par value of capital stock sold and issued.

¶ 3. *The Balance of this Account* shows the par value of unissued stock. It has no value unless sold, hence the balance of this account is shown as a deduction from the Capital Stock account on the Balance Sheet.

¶ 4. *To Close the Unissued Capital Stock Account.* This account is not closed until all the stock authorized by the charter has been sold, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance together with the date of closing and the new page are written on the credit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

Unissued Capital Stock

191 July	2	10,000 00	J1	50000	July	2		J1	40000

Illustration No. 94a, Unissued Capital Stock Account.

NOTE. Some accountants advise crediting Capital Stock with the value of the capital stock sold and issued without passing it through the Unissued Capital Stock account, or keeping an account of the stock unissued. Since the Unissued Capital Stock account has no value, and its balance is shown as a deduction from the Capital Stock account, the final results are the same whether Capital Stock account shows the par value of the stock issued, or shows the par value of the stock authorized, and Unissued Capital Stock account, the par value of unissued stock. The authorized capital, the unissued stock, and the capital stock outstanding are shown on the Balance Sheet. Since these facts should be shown and can be obtained from the Trial Balance when the two accounts are kept, it is considered the better practice to keep them.

TREASURY STOCK ACCOUNT.

§ 244. **The Object of this Account** is to show the value of its own stock purchased by the corporation or donated to it. This account is not opened unless the corporation purchases its own stock or unless stock is donated to the corporation, by some stockholder, and it should never represent any part of the capital stock which has not been issued.

Debit the Treasury Stock Account:

¶ 1. For the par value of its own stock purchased by the corporation. (§ 233.)

¶ 2. For the par value of stock donated to the treasury by a stockholder. If the value of this is below par, this difference should be shown by a special account.

Credit the Treasury Stock Account:

¶ 3. For the par value of treasury stock sold. If it is sold above par, the difference is credited to a special account.

¶ 4. *The Balance of this Account* shows the par value of its own stock held in the treasury of the corporation. It is shown as a current asset on the Balance Sheet, or if desired, it may be shown as a deduction from the capital stock.

¶ 5. *To Close the Treasury Stock Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the new page, are entered on the credit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

SURPLUS ACCOUNT.

§ 245. **The Object of this Account** is to show the amount of the undivided profits, that is, that part of the profit not distributed among the stockholders. It is not affected by any transactions except those which increase or decrease the profits of the preceding period or periods.

Debit the Surplus Account:

¶ 1. With any adjustment during the fiscal period, which diminishes the profit of the preceding period.

¶ 2. At the close of each fiscal period with the net loss as shown by the debit balance of the Profit and Loss account.

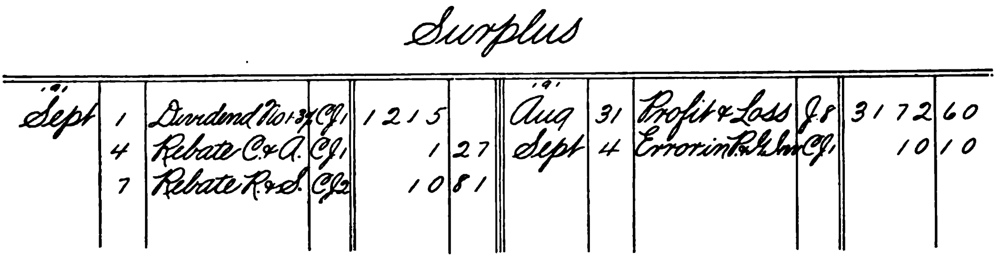
Credit the Surplus Account:

¶ 3. With any adjustment during the fiscal period which increases the profit of the preceding period.

¶ 4. At the close of each fiscal period with the net gain as shown by the credit balance of the Profit and Loss account.

¶ 5. *The Balance of this Account* at the close of the fiscal period shows the undivided profits. It is shown as a part of the capital of the corporation on the Balance Sheet, being listed after the Capital Stock.

¶ 6. *To Close the Surplus Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.



Surplus

'19'						'19'					
Sept	1	Dividend No. 3	CJ1	1215		Aug	31	Profit & Loss	J8	3172	60
	4	Rebate C.&A.	CJ1	1	27	Sept	4	Error in P.&L. In	CJ1	10	10
	7	Rebate R.&S.	CJ2	10	81						

Illustration No. 95, Surplus Account.

NOTE. In a partnership business, the net profit as shown by the Profit and Loss statement is closed into the partners' Capital accounts; in a corporation the net profit is closed into the Surplus account; that part to be distributed among the stockholders is taken out of this account and transferred to the Dividend account when the Board of Directors authorizes this distribution. Very often in the reorganization of a corporation, the stockholders will contribute stock or money to provide working capital. These contributions should not be credited to the Surplus account, but to a special account, entitled Capital Surplus. If it is desired to accumulate profits for any special purpose, it is better not to credit these amounts to Surplus, but to an account which by its caption plainly designates the purpose for which it is intended.

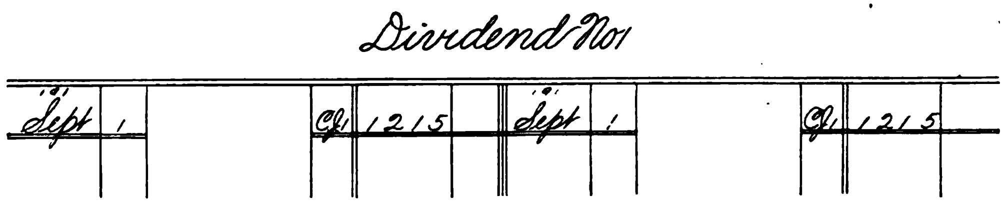
DIVIDEND ACCOUNT.

§ 246. **The Object of this Account** is to show the amount of the profit to be divided among the stockholders. After the Balance Sheet, and Profit and Loss statement have been made, and the books closed, the Surplus account shows the amount of undivided profit. The board of directors then decide upon the amount of profit to be divided among the stockholders. This is usually some per cent of the par value of the capital stock. A dividend of 5 per cent would mean $5.00 on each share, if the par value of a share is $100.00; a dividend of 10 per cent would mean $2.50 on each share, if the par value of the stock is $25.00. A separate account should be opened for each dividend and designated by number. Thus, Dividend No. 1, represents the first; Dividend No. 2, the second, etc.

Debit the Dividend Account:	*Credit the Dividend Account:*
¶ 1. For dividends paid.	¶ 2. For the amount of the dividend declared by the board of directors.

¶ 3. *The Difference Between the Two Sides of this Account* shows the amount of dividends declared, but not paid. As a rule, the dividend checks are issued for all dividends at the time the Board of Directors declare the dividend, in which case the account will balance because it is credited with the total amount of the dividend and debited with the dividend checks. If, for any reason, some of the stockholders do not receive their dividend checks, the balance of this account will show the amount of the dividend yet to be distributed. It is shown as a current liability on the Balance Sheet.

¶ 4. *To Close the Dividend Account.* This account is closed when it balances, that is, after all the dividends set apart to be divided among the stockholders have been paid. Since this, as explained, is usually done immediately the account is opened and closed at practically the same time and remains closed until the end of the next fiscal period.



Dividend No1

'19 Sept	1		CJ1	1215		'19 Sept	1		CJ1	1215

Illustration No. 96, Dividend No. 1 Account.

CONTROLLING ACCOUNTS.

§ 247. **The Object of a Controlling Account** is to show in total the facts shown in a subsidiary ledger or subsidiary record. It is kept in the general ledger and may represent a ledger in which accounts are kept with creditors, customers, consignments, shipments, etc. It is better to keep a controlling account with each subsidiary ledger, but one controlling account may represent two or more ledgers, if desired. It is advisable to have a special column in each book of original entry for each controlling account. If no special column is provided, double posting is necessary with those transactions which affect the accounts in the controlling ledger, that is, one to the account in the subsidiary ledger, and the other to the controlling account in the general ledger.

¶ 1. *Advantage of Controlling Accounts.* The use of a controlling account saves time in taking a Trial Balance. The reason for this is that the Trial Balance is made from the general ledger first, and then each subsidiary ledger is proved with the controlling account in the general ledger. If an error of ten cents is made in taking the Trial Balance and all the accounts are in one ledger, it may be necessary to check all the postings in order to discover the error. If controlling accounts are used and the general Trial Balance is in balance, the error of ten cents would be in one of the subsidiary ledgers. These are checked one at a time, and the error may be discovered before it is necessary to check all the postings.

¶ 2. *Name of the Controlling Account.* The controlling account in the general ledger usually bears the name of the ledger which it represents. If all the accounts with creditors are kept in one ledger, the controlling account is termed Purchases Ledger; if all the accounts with customers are kept in one ledger, the controlling account is termed Sales Ledger. If desired, the name of the controlling account for the purchases ledger may be designated Accounts Payable, and for the sales ledger, Accounts Receivable. These are satisfactory if only one ledger is required for each class. When more than one ledger is required for each class, it will then be necessary to name the controlling account according to each ledger, that is, "City Ledger" for customers accounts in the city; "Country Ledger" for customers accounts out of the city; "Ohio Ledger" for customers accounts in Ohio; "Sales Ledger A—M" for this section of the customers accounts, etc.

PURCHASES LEDGER ACCOUNT.

§ 248. **The Object of this Account** is to show the amount due creditors, on account, as shown by the individual accounts in the purchases ledger. It is a controlling account (§ 247), and is kept in the general ledger. The account may be termed Accounts Payable if only one purchases ledger is kept or the several purchases ledgers are arranged alphabetically.

Debit the Purchases Ledger Account:

¶ 1. For the total of the purchases ledger column on the credit side of the cash book, at the end of the month.

¶ 2. For the total of the purchases ledger column in the journal, at the end of the month.

¶ 3. For the total of the purchases ledger column in the notes payable book, or any other special book of original entry at the end of the month.

Credit the Purchases Ledger Account:

¶ 4. At the end of each month with the total of the purchases book, whether this represents the purchases for one department, or a number of departments.

¶ 5. *The Balance of this Account* shows the amount due creditors. It is shown as a current liability on the Balance Sheet.

¶ 6. *To Close the Purchases Ledger Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the new page, are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

NOTE. Some bookkeepers prefer closing this account at the end of each month because the balance represents the total of the various balances shown in the purchases ledger. This is a very good practice, especially where there are a number of debits and credits during the month.

SALES LEDGER ACCOUNT.

§ **249. The Object of this Account** is to show the amount due from customers on account, as shown by the individual accounts in the sales ledger. It is a controlling account (§ 247), and is kept in the general ledger. The account may be designated as Accounts Receivable if only one sales ledger is kept or the several sales ledgers are arranged alphabetically.

Debit the Sales Ledger Account:

¶ 1. At the end of each month with the total of the sales book, whether this represents the sales from one department or a number of departments.

(If a customer is charged with prepaid freight on merchandise shipped to him and there is no special column on the credit side of the cash book for Sales Ledger, it will be necessary to post this amount to the debit side of the Sales Ledger account in the general ledger as well as to the customer's account in the sales ledger. Special adjusting entries which affect accounts with customers must be posted to this account, as well as the customer's account, unless a special column is provided in the journal for charges to the sales ledger.)

Credit the Sales Ledger Account:

¶ 2. With the total of the sales ledger column on the debit side of the cash book, at the end of the month.

¶ 3. With the total of the sales ledger column in the journal (if one is kept), at the end of the month.

¶ 4. With the total of the goods returned book, at the end of the month.

¶ 5. With the total of the sales ledger column in the notes receivable book, at the end of the month, if this book is used as a book of original entry.

¶ 6. With the total of the sales ledger column in any other book of original entry, at the end of the month.

¶ 7. *The Balance of this Account* shows the amount due from customers, and must be the same as the total of the various balances shown in the sales ledger. It is shown as a current asset on the Balance Sheet.

¶ 8. *To Close the Sales Ledger Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

NOTE. Some bookkeepers prefer to close this account at the end of each month. This is explained in the note under § 248.

GOOD WILL ACCOUNT.

§ **250. The Object of this Account** is to show the value of "Good Will" that is considered an asset of the business. The account is created when a change in management makes it necessary to place a value on the good will of the business. It should represent the actual value of the good will as agreed upon by those interested, and under no circumstances should it be used to offset over-capitalization.

Good will may be defined as a special value attached to a particular business, in addition to the actual value of the current and fixed assets of the business. This may be brought about through the value of the trade mark or the reputation or skill of the organization, the reputation of the goods sold, or any peculiar advantages of the business on account of location, etc.

Debit the Good Will Account:	*Credit the Good Will Account:*
¶ 1. For the value of the good will acquired when a change in ownership is made.	¶ 2. This account is not credited unless those interested in the business wish to write it off against profits. If they do, it is credited with a part of the profit each year, or a sufficient amount of the profit for one year to balance it.

¶ 3. *The Balance of this Account* shows the estimated amount of the good will of the business. It is shown as a fixed asset on the Balance Sheet.

¶ 4. *To Close the Good Will Account.* This account is not closed unless those interested in the business wish to write it off against profits. As a rule, it is not written off, as it is one of the values of the business that would be considered, should a change in ownership occur.

ACCOUNTS WITH SELLING EXPENSE.

§ 251. **The Selling Expense** refers to the cost of selling merchandise or other property in which the business deals. As previously explained, one account may represent the total cost, but it is the better practice to keep accounts with each class of expense. These usually include warehouse or shipping room expense, delivery expense, advertising, traveling expense, freight out, and salaries in the selling departments.

WAREHOUSE EXPENSE.

§ 252. **The Cost of Merchandise** is best defined as the invoice cost, plus transportation cost, drayage cost and the cost of preparing the merchandise for sale. If this definition is accepted, the selling expense begins with the salary of the salesman and includes the cost of preparing the shipment for delivery to the customer or the transportation company. The warehouse or shipping room is a place provided for receiving and shipping merchandise. Since in many cases the merchandise is shipped out in the original package, there is no cost in connection with preparing it for sale. On the other hand, it may be necessary to unpack and reassemble the merchandise in order to fill the orders received from customers. For this reason the cost of maintaining the warehouse or shipping room can not be classed as all purchases cost or all selling cost, and must be divided between the two according to the nature of the business. At the close of the fiscal period an adjusting entry is made transferring to the Purchases account that part of the warehouse expense which applies to the cost of merchandise. The amount to be transferred is determined by the management.

WAREHOUSE EXPENSE ACCOUNT.

§ 253. **The Object of this Account** is to show the cost of maintaining the warehouse or shipping room. This includes amounts paid employees in the shipping room, cost of nails, cases, wrapping paper, twine, and other supplies purchased for use in unpacking and repacking merchandise received and sold.

Debit the Warehouse Expense Account:

¶ 1. For amounts paid employees in the warehouse or shipping room.

¶ 2. For supplies purchased for use in the shipping department, which include wrapping paper, twine, marking ink, shipping cases, nails, etc., also repairs.

Credit the Warehouse Expense Account:

¶ 3. For amounts that reduce the cost of maintaining the shipping department.

¶ 4. For the estimated amount applicable to the cost of merchandise, as explained in § 252.

¶ 5. *The Difference Between the Two Sides of this Account* shows the shipping room cost of merchandise sold. It is shown as a selling cost on the Profit and Loss statement.

¶ 6. *To Close the Warehouse Expense Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

NOTE. Property on hand at the close of the fiscal period, the value of which was charged to this account, is shown on the Balance Sheet as a deferred charge to operations as explained in § 178. Where large quantities of supplies are used in the warehouse it is best to keep a separate account with Warehouse Supplies.

DELIVERY EXPENSE ACCOUNT.

§ 254. **The Object of this Account** is to show the cost of delivering goods, either to the customer's place of business or to the freight station. It includes all amounts paid for delivery service if no delivery equipment is owned by the business. If delivery equipment is owned, it includes all expenses incurred in connection with its maintenance and operation.

Debit the Delivery Expense Account:

¶ 1. For amounts paid for delivering goods if no delivery equipment is owned by the business.

¶ 2. For amounts paid to drivers and others who assist in delivering merchandise.

¶ 3. For all amounts paid for maintaining the delivery equipment, such as feed for horses, livery bill, repairs on delivery equipment, etc.

¶ 4. For any other expenses connected with the delivery of goods, which includes insurance on delivery equipment, depreciation of delivery equipment, etc.

Credit the Delivery Expense Account:

¶ 5. For rebates that decrease the delivery expense.

¶ 6. For amounts received from the sale of any property, the cost of which was charged to this account.

¶ 7. *The Difference Between the Two Sides of this Account* shows the cost of delivering goods. It is shown as a selling expense on the Profit and Loss statement.

¶ 8. *To Close the Delivery Expense Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

ADVERTISING ACCOUNT.

§ 255. **The Object of this Account** is to show the cost of advertising. This includes catalogs, circulars, advertising novelties, newspaper and magazine advertisements, etc.

Debit the Advertising Account:	*Credit the Advertising Account:*
¶ 1. For amounts paid for advertising.	¶ 3. For rebates that decrease the advertising expense.
¶ 2. For property purchased to be used for advertising, unless a special account is kept with this.	¶ 4. For amounts received from the sale of property, the cost of which was charged to this account.

¶ 5. *The Difference Between the Two Sides of this Account* shows the net cost of advertising. It is shown as a selling expense on the Profit and Loss statement.

¶ 6. *To Close the Advertising Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

TRAVELING EXPENSE ACCOUNT.

§ 256. **The Object of this Account** is to show the expense incurred by traveling men, which includes railroad fare, hotel accommodation, salaries, and other authorized expenditures. The account is fully explained in § 213, but it is mentioned here because it represents one of the selling expenses.

FREIGHT OUT.

§ 257. **"Freight Out"** refers to freight paid on merchandise sold; "Freight In" refers to freight paid on merchandise purchased. One adds to the cost of merchandise purchased for sale and the other to the cost of selling. It is customary for the purchaser to pay the freight charges on merchandise which he buys, but in some cases the seller may agree to deliver the goods, in which case he quotes a price "f. o. b. (free on board) the purchaser's freight station". This means that the merchandise will be delivered to the purchaser at his freight station, free of drayage and transportation cost.

When possible the cost of transportation for goods delivered by the seller should be eliminated from the selling cost. It is a selling expense to the seller, but he has taken this into consideration in fixing his price, hence it is better to deduct the freight, express or postage from the sale price. When this plan is followed, a special account is charged with all amounts paid for transportation, and this account credited with the freight cost at the time the sale is made. When the transportation charges have all been paid, this account will balance; if any part remains unpaid at the close of the fiscal period, it will appear as a liability on the Balance Sheet.

To illustrate: the delivered price of an article is $50.00, and the transportation cost, $5.00. When a sale is made, the customer is charged with $50.00, Sales credited with $45.00, and a Transportation account credited with $5.00. The same plan is followed with succeeding sales. At the end of the month the Transportation account will show a credit of the total allowance for transportation. When the freight or transportation bills are paid, the Transportation account is debited with the amount. When all transportation bills have been paid the account will balance. The final results, that is, the gross profit on sales, will be the same whether Freight Out is carried as a selling cost and the sales increased, or carried as a special charge and the sales decreased. It is the better practice to deduct the cost of freight from the returns from sales, but it is not always possible to do so, hence the necessity for the Freight Out account.

FREIGHT OUT ACCOUNT.

§ 258. **The Object of this Account** is to show the delivery cost (freight, express or postage) of merchandise sold f. o. b. the customer's freight station, whether paid in advance or paid by the customer and deducted from the bill.

Debit the Freight Out Account:

¶ 1. For amounts paid for freight, express, or postage on goods shipped to a customer f. o. b. his freight station.

¶ 2. For amounts credited to a customer for freight, express, or postage which he pays and charges to our account.

Credit the Freight Out Account:

¶ 3. For amounts received that reduce the charges, such as rebates on freight, express, postage, etc.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net amount paid to transportation companies for delivering goods to customers. It is shown as a selling expense on the Profit and Loss statement.

¶ 5. *To Close the Freight Out Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

SALARIES IN SELLING DEPARTMENT ACCOUNT.

§ 259. **The Object of this Account** is to show the amounts paid to employees in the selling department. This includes salaries of house salesmen and all others engaged in selling merchandise, except the regular traveling men; their salaries and expenses are charged to Traveling Expense.

Debit Salaries in Selling Department Account:

¶ 1. For all salaries of employees in the selling department, which include salaries of house salesmen, credit man, clerks, bill clerks, shipping clerks, etc.

Credit Salaries in Selling Department Account:

¶ 2. For amounts received that reduce the charges to this account.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net amount paid employees in the selling department. It is shown as a selling expense on the Profit and Loss statement.

¶ 4. *To Close the Salaries in Selling Department Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

BRANCH STORE.

§ 260. **A Branch Store,** as the name indicates, is a part of the main store, located in the same or some other city. One or more branch stores may be opened by a wholesale house to take care of the retail sale of its merchandise or as a separate wholesale department established for the convenience of its customers. A retail store may open a number of branch stores for the convenience of its customers. The branch store may be located in the same city or some other city, according to the nature of the business and the desire of the management. The branch store may be designated by the same name as the main store or a special name, such as, "Main Street Store", "Dallas Store No. 1", "South Bend Store No. 27", etc.

The nature of the business, the purpose of the branch store and the desire of the management will determine the method of keeping the account or accounts with a branch store. This account is discussed briefly here that the student may understand at least one satisfactory method.

BRANCH STORE ACCOUNT.

§ 261. **The Object of this Account** as kept in this set is to show the profit or loss resulting from operating a branch store, when all purchases are made by the management of the main store and all salaries and other expenses are paid by the main store. One account may represent all the transactions, or special accounts may be kept with Branch Store Inventory, Branch Store Purchases and Branch Store Sales.

Debit the Branch Store Account:

¶ 1. For property on hand which may be fixed assets, merchandise for sale, cash, notes, or personal accounts.
¶ 2. For merchandise transferred to the branch store out of the main store.
¶ 3. For merchandise or other property purchased for the branch store.
¶ 4. For amounts paid to employees in the branch store.
¶ 5. For amounts paid for other expenses.

Credit the Branch Store Account:

¶ 6. For amounts received from the sale of goods, which usually include only cash, as the credit sales are not reported until collected.
¶ 7. For the inventory of merchandise and other property on hand at the close of the fiscal period as shown by the inventory accompanying the statement submitted by the bookkeeper for the branch store.

¶ 8. *The Difference Between the Two Sides of this Account,* at the close of the fiscal period, after the proper entry has been made for the value of property on hand, shows the profit or loss resulting from conducting the branch store. If the debit side is larger, it is a loss; if the credit side is larger, it is a profit. It is shown as a profit or a loss on the Profit and Loss statement.

¶ 9. *To Close the Branch Store Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

NOTE. When this method of keeping the Branch Store account is used, the bookkeeper at the branch store keeps a full set of books. At the close of the fiscal period of the main store he takes stock and makes a statement of the business from his books. This statement is submitted to the management of the main store and accompanies the Statement of the Business of the main store as an exhibit in connection with the profit or loss shown by the Branch Store account on the Profit and Loss statement. The inventory of merchandise at the branch store is shown on the Balance Sheet of the main store as a current asset, being listed just below the inventory of the main store. The value of the fixed assets of the branch store are shown with the fixed assets of the main store. The list of merchandise and other property on hand at the branch store should accompany the Balance Sheet of the main store as a schedule in connection with the branch store inventory.

BRANCH STORE INVENTORY ACCOUNT.

§ 262. **The Object of this Account** is to show the cost of property on hand in the Branch Store at the close of the fiscal period. This includes all property represented as an asset on the books of the Branch Store; if it includes fixed and current assets, these should be shown separately. At the close of the fiscal period this account is created by a journal entry debiting Branch Store Inventory and crediting Branch Store. This inventory is shown as a current asset on the Balance Sheet of the main store. After the ledger is closed, this account is closed into the Branch Store account and remains closed until the close of the next fiscal period.

AGENT'S ACCOUNT WITH THE PRINCIPAL.

§ 263. **The Object of this Account** as kept in this set is to show the balance due the principal when the agent is selling merchandise which belongs to the principal on a commission basis, and assumes all responsibility for credit sales.

Debit the Principal:

¶ 1. For amounts paid, such as freight, drayage, and other charges when the goods are received.
¶ 2. For cash paid him on account of goods sold.
¶ 3. For notes given him or drafts accepted to apply on account of goods sold.
¶ 4. For commission on sales as per contract.

Credit the Principal:

¶ 5. For cash sales of his goods.
¶ 6. For credit sales of his goods.

¶ 7. *The Balance of this Account* shows the amount due the agent, or the principal for goods sold. It is shown as a current asset or current liability on the Balance Sheet.

The agent keeps a record of the merchandise received as well as sold, but the balance on hand is not shown on the Balance Sheet, because it belongs to the principal until sold.

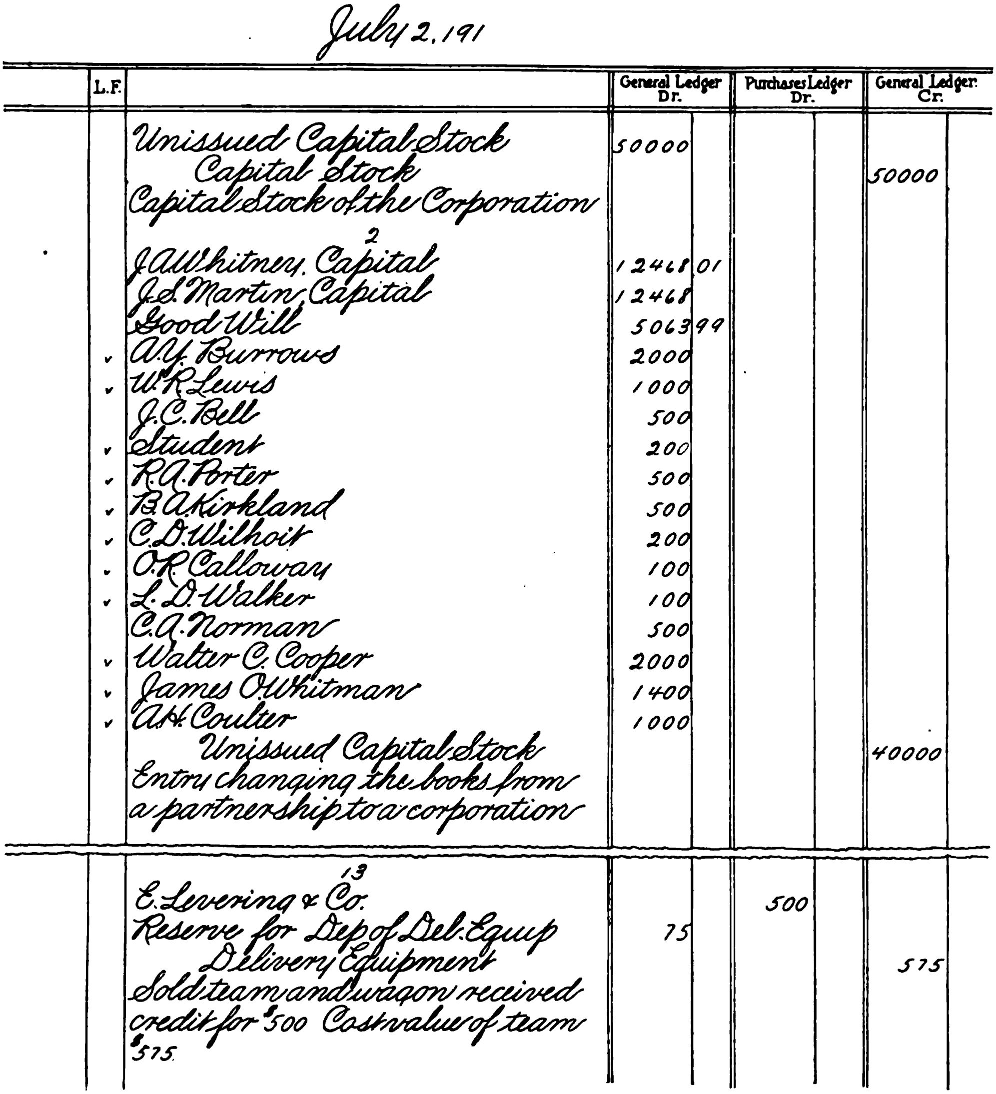
¶ 8. *To Close the Agency Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the smaller side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

BOOKS OF ACCOUNT.

§ 264. **The books of original entry** in this set consist of the following: special ruled journal, special ruled purchases book, loose leaf sales book, special ruled cash book, sales returns book, notes receivable book and notes payable book. The auxiliary books consist of the stock certificate book, stock ledger and check book.

§ 265. **Journal.** This is ruled with three money columns, two for debits and one for credits, as shown in Illustration No. 97. Amounts to be debited to general ledger accounts are entered in the first column; amounts to be debited to purchases ledger accounts, in the second column; and amounts to be credited to general ledger accounts, in the third column. Special columns may be provided for amounts to be posted to the debit and credit of sales ledger accounts and the credit of purchases ledger accounts, if there are sufficient transactions to justify their use. When a page in the journal is full, the three columns are footed, proved and the totals forwarded to the top of the next page. The total of the two debit columns must equal the total of the one credit column.

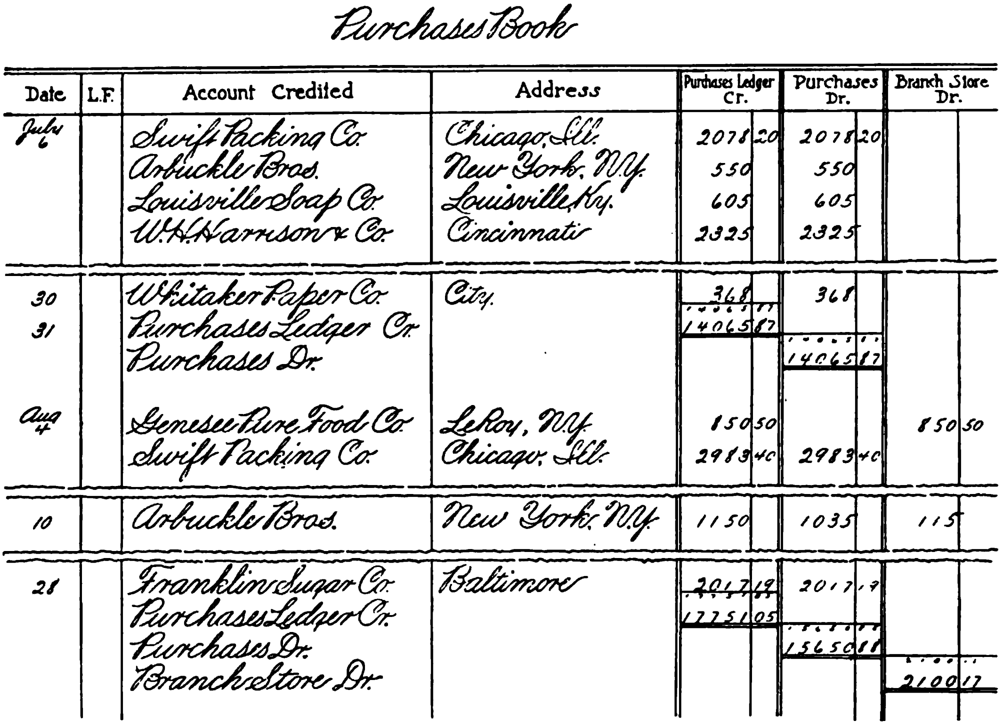
¶ 1. *To Post from the Journal.* Each amount entered in the first column is posted to the debit side of the general ledger account written on the same line with it; each amount entered in the second column is posted to the debit side of the purchases ledger account written on the same line with it; each amount entered in the third column is posted to the credit side of the general ledger account written on the same line with it. At the end of the month, after the columns have been proved, the total of the second column is posted to the debit side of the Purchases Ledger account in the general ledger. The totals of the first and third columns are not posted. The proof at the end of the month is made in the same manner as at the bottom of each page.



July 2, 191

L.F.		General Ledger Dr.	Purchases Ledger Dr.	General Ledger Cr.
	Unissued Capital Stock	50000		
	Capital Stock			50000
	Capital Stock of the Corporation			
	2			
	J. A. Whitney, Capital	12468 01		
	J. S. Martin, Capital	12468		
	Good Will	5063 99		
✓	A. Y. Burrows	2000		
✓	W. R. Lewis	1000		
	J. C. Bell	500		
✓	Student	200		
✓	R. A. Porter	500		
✓	B. A. Kirkland	500		
✓	C. D. Wilhoit	200		
✓	O. R. Calloway	100		
✓	L. D. Walker	100		
	C. A. Norman	500		
✓	Walter C. Cooper	2000		
✓	James O. Whitman	1400		
✓	A. H. Coulter	1000		
	Unissued Capital Stock			40000
	Entry changing the books from a partnership to a corporation			
	13			
	E. Levering & Co.		500	
	Reserve for Dep of Del. Equip	75		
	Delivery Equipment			575
	Sold team and wagon received credit for $500 Cost value of team $575.			

Illustration No. 97, Journal, Corporation Set.



Purchases Book

Date	L.F.	Account Credited	Address	Purchases Ledger Cr.		Purchases Dr.		Branch Store Dr.	
July 6		Swift Packing Co.	Chicago, Ill.	2078	20	2078	20		
		Arbuckle Bros.	New York, N.Y.	550		550			
		Louisville Soap Co.	Louisville, Ky.	605		605			
		W. H. Harrison & Co.	Cincinnati	2325		2325			
30		Whitaker Paper Co.	City.	368		368			
31		Purchases Ledger Cr.		14065	87				
		Purchases Dr.				14065	87		
Aug 4		Genesee Pure Food Co.	LeRoy, N.Y.	850	50			850	50
		Swift Packing Co.	Chicago, Ill.	2983	40	2983	40		
10		Arbuckle Bros.	New York, N.Y.	1150		1035		115	
28		Franklin Sugar Co.	Baltimore	2017	19	2017	19		
		Purchases Ledger Cr.		17751	05				
		Purchases Dr.				15650	88		
		Branch Store Dr.						2100	17

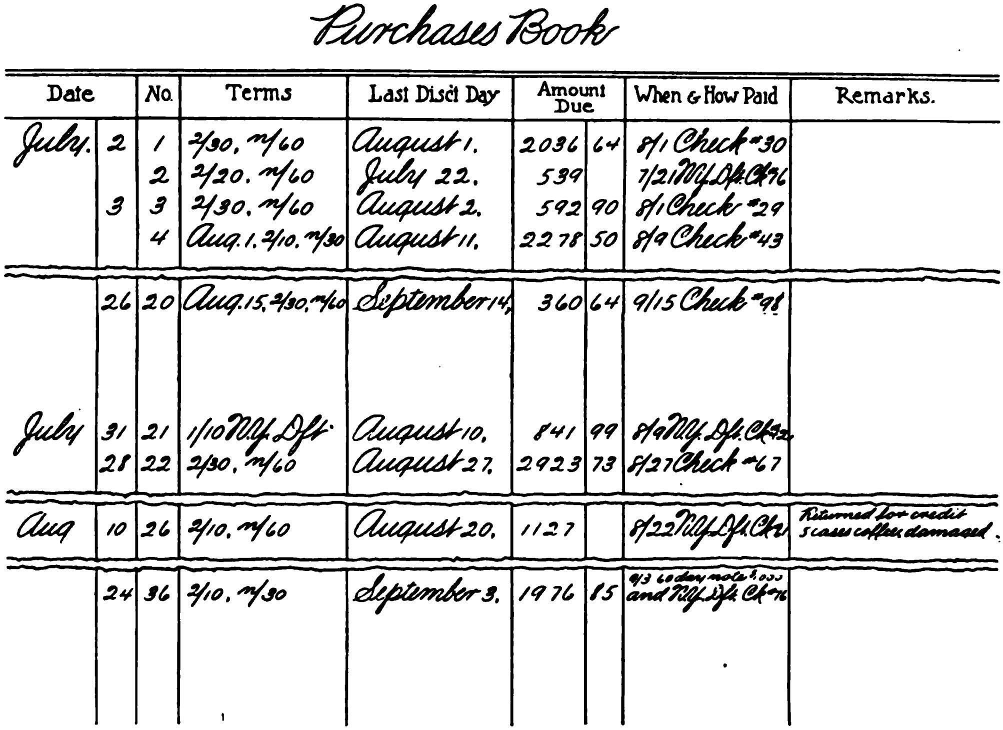
Illustration No. 98, Left Page of Purchases Book, Corporation Set.

§ **266. Purchases Book.** The invoices are numbered in consecutive order as they are received, and entered in the purchases book in the same order. Special columns are provided as shown in Illustration No. 98. These are arranged for all the necessary facts in connection with the invoices, including the departments affected by the purchase. When a page is full, the various money columns representing the purchases are footed, proved, and the total is carried forward to the top of the next page. The total of the debit columns must equal the total of the credit column.

¶ 1. *To Post from the Purchases Book.* Each creditor is credited with the amount of the invoice as indicated in the last column. At the end of the month each department is charged with the total purchases for it; the Purchases account is charged with the total purchases as shown by the last column; and the Purchases Ledger account is credited with the same amount as the total purchases; the posting may be direct or from a special journal entry.

§ **267. Sales Book.** The most convenient record of a credit sale is the carbon copy of the bill rendered to the customer. This record is not complete until the carbon copy has been properly filed in a loose leaf binder.

¶ 1. *Method of Entering an Order.* After the financial standing of the



Purchases Book

Date		No.	Terms	Last Disc't Day	Amount Due		When & How Paid	Remarks.
July.	2	1	2/30. n/60	August 1.	2036	64	8/1 Check #30	
		2	2/20. n/60	July 22.	539		7/21 N.Y. Dft. Ck#76	
	3	3	2/30. n/60	August 2.	592	90	8/1 Check #29	
		4	Aug. 1. 2/10. n/30	August 11.	2278	50	8/9 Check #43	
	26	20	Aug. 15. 2/30. n/60	September 14,	360	64	9/15 Check #98	
July	31	21	1/10 N.Y. Dft.	August 10.	841	99	8/9 N.Y. Dft. Ck#32	
	28	22	2/30. n/60	August 27.	2923	73	8/27 Check #67	
Aug	10	26	2/10. n/60	August 20.	1127		8/22 N.Y. Dft. Ck	Returned for credit 5 cases coffee damaged.
	24	36	2/10. n/30	September 3.	1976	85	9/3 60 day note $1,000 and N.Y. Dft. Ck#76	

Illustration No. 98, Right Page of Purchases Book, Corporation Set.

customer has been passed on by the credit man, and the stock clerk has ascertained that the articles ordered are in stock, the charge is completed in the following order:

First. The bill clerk makes a bill for the articles sold and indicates the method of shipment. Usually four copies are made—one for the customer, one for the bookkeeper for the sales record, one for the assembly clerk, and the fourth for the credit man or bookkeeper to be filed in the tickler under the date due.

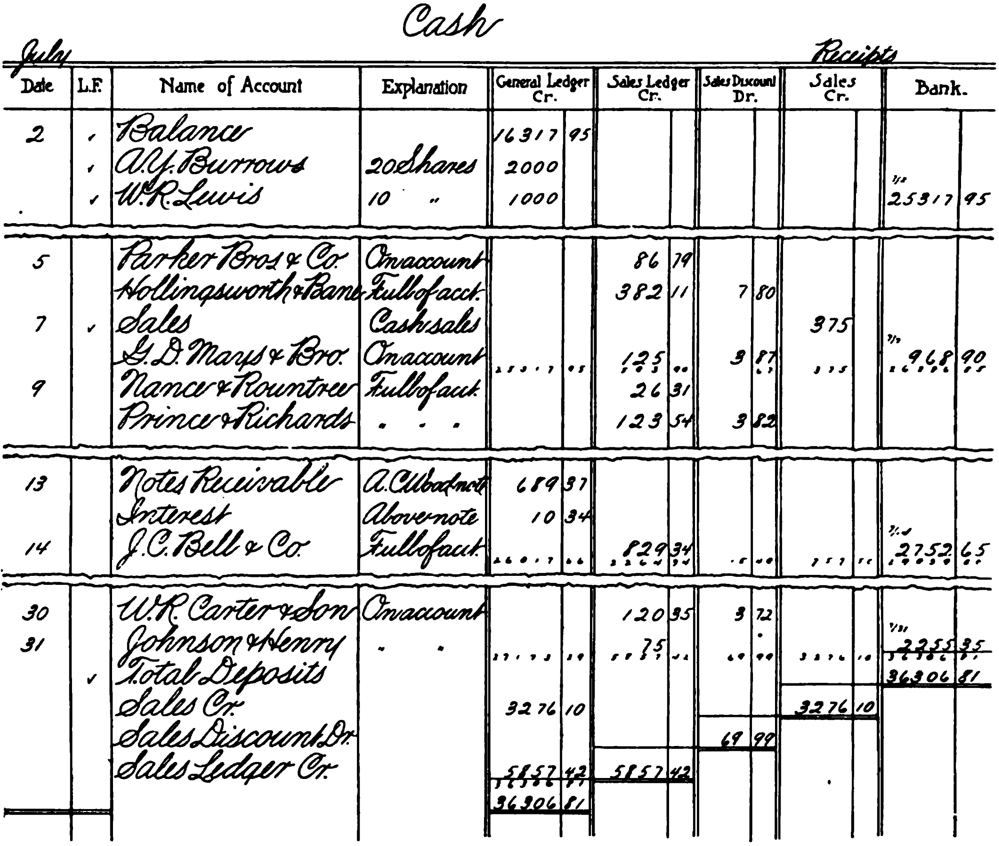
Second. The copy for the customer and the order are referred to the clerk who acknowledges orders. Items out of stock should be indicated on the bill and mentioned in the acknowledgment.

Third. The copy for the bookkeeper is usually made on a sheet punched to fit a sales binder and is placed in this binder in numerical order.

Fourth. The copy for the tickler is referred to the credit man, bookkeeper or an assistant, and filed under the date the bill is due.

Fifth. The copy for the shipping clerk is referred to the assembly clerk, who selects the items from stock and delivers them to the shipping clerk with the copy of the order.

Sixth. The shipping clerk, his assistants or some clerk designated for this purpose, checks the items assembled by the assembly clerk with the order, and then the goods are packed and marked for shipment. If the shipment is for an out-of-town customer the shipping clerk prepares the bill of lading, which must



Cash

July — Receipts

Date	L.F.	Name of Account	Explanation	General Ledger Cr.	Sales Ledger Cr.	Sales Discount Dr.	Sales Cr.	Bank.
2	✓	Balance		16317 95				
	✓	A.Y. Burrows	20 Shares	2000				
	✓	W.R. Lewis	10 "	1000				7/2 25317 95
5		Parker Bros & Co.	On account		86 79			
		Hollingsworth & Bane	Full of acct.		382 11	7 80		
7	✓	Sales	Cash sales				375	
		G.D. Mays & Bro.	On account		125	3 87		7/7 968 90
9		Nance & Rountree	Full of acct.		26 31			
		Prince & Richards	" "		123 54	3 82		
13		Notes Receivable	A.C. Albad note	689 37				
		Interest	Above note	10 34				
14		J.C. Bell & Co.	Full of acct.		829 34			7/14 2752 65
30		W.R. Carter & Son	On account		120 35	3 72		
31		Johnson & Henry	" "		75			7/31 2255 35
	✓	Total Deposits						36306 81
		Sales Cr.		3276 10			3276 10	
		Sales Discount Dr.				69 99		
		Sales Ledger Cr.		5857 42	5857 42			
				36306 81				

Illustration No. 99, Debit Side of Cash Book, Corporation Set.

accompany the package to the transportation company. If for local delivery, a special form of delivery ticket is given the driver who is to deliver the package.

Seventh. The shipping clerk signs his copy of the order and returns it to the office. This copy is filed with the customer's correspondence.

A separate record is provided for cash sales either through the cash register or a special binder.

¶ 2. *To Post from the Sales Book.* Each customer in the sales ledger is charged with the amount of his purchase as indicated by the carbon copy of the bill rendered to him. At the end of the month the sales are listed on the recapitulation sheet, and the total is posted to the debit side of the Sales Ledger account and to the credit side of the Sales account in the general ledger, either direct or from an entry in the journal.

§ **268. Cash Book.** This is ruled with five money columns on each side, as shown in Illustrations Nos. 99 and 100. The first column on the debit side is for amounts to be posted to accounts in the general ledger; the second and third columns

Cash

July Payments

Date	L.F.	Name of Account	CK.№	General Ledger Dr.	Purchases Ledger Dr.	Purchases Discount Cr.	Genl. Admr. Exp Dr.	Bank.
3		Petty Cash Fund	1	20				20
5	✓	Gen'l Admr. Expense	2				150	150
		Armacost Riley & Co.	3		908 05			908 05
6		P. H. Haynes & Co.	4		437 90	27 95		437 90
		Whitaker Paper Co.	5		743 75			743 75
7		Advertising	6	75				75
10		Church & Dwight	7		1444 95	44 69		1444 95
12		Notes Payable	8	2500				2500
14		Warehouse Expense	10	45				
		Delivery Expense	10	35				450
31		Warehouse Expense	25	45				
		Delivery Expense	25	42 50				457 50
	✓	Total Checks Written						13210 25
		Gen'l Admr. Expense Dr.		605 75			605 75	
		Purchases Discount Cr.				123 81		
		Purchases Ledger, Dr.		5807 16	5807 16			
	✓	Balance		23096 56				
				36306 81				

Illustration No. 100, Credit Side of Cash Book, Corporation Set.

are for amounts to be posted to accounts in the sales ledger; the fourth column is for amounts to be posted to the Sales account in the general ledger; the fifth column is for the total of deposits at the time they are made. The first column on the credit side is for amounts to be posted to accounts in the general ledger; the second and third columns are for amounts to be posted to accounts in the purchases ledger; the fourth column is for amounts debited to General Administrative Expense; the fifth column is for the amount of each check written.

¶ 1. *To Prove Cash.* Foot the five columns on the debit and credit sides, and enter the total of each column in small pencil figures just below the blue line on which the last entry is made. These pencil footings are entered below the same blue line, so that the date when the cash was proved can be shown at a glance. The difference between the total of the first, second and fourth columns on the debit side and the total of the first, second and fourth columns on the credit side is the cash balance, which should be the same as the difference between the fifth columns on the debit and credit side, if all the money has been deposited. If it has not been deposited, the amount of money on hand is added to the bank balance.

¶2. *Method of Keeping the Bank Account.* The bank account is kept in the fifth column on each side of the cash book instead of on the check stub. The balance in the bank at the first of the month and the total of each deposit made during the month is entered in the fifth column on the debit side. The amount of each check written is entered in the fifth column on the credit side. The difference between these two columns is the amount of money in the bank and should agree with the monthly statement received from the bank on the first of each month, if all the checks written have been paid. If any checks written have not been paid, the total of these is added to the canceled vouchers returned, to prove the correctness of the bank account.

When cash is proved, the difference between the total receipts and total payments as shown by the other columns in the cash book should be the same as the difference between the bank columns. If all the cash has not been deposited, this is added to the balance in the bank to prove the correctness of the cash balance. When the bank account is kept in the cash book, it is not necessary to subtract each check on the check stub as one record is sufficient. When the bank account is kept on the check stub instead of in the cash book, as explained above, it is better to keep it on the back of the stubs that have been used, rather than subtract on the front. The reason for this is because the amount of money in the bank is confidential, and when kept on the front of the stub may be exposed to the view of those who should not have this information.

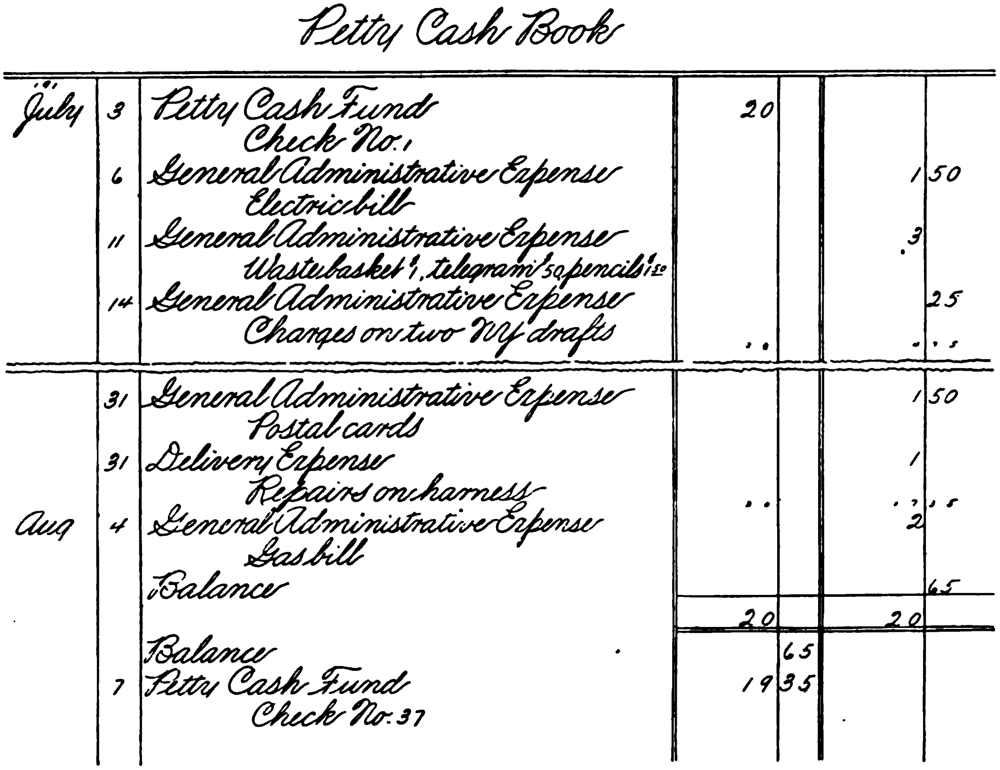
¶ 3. *Sales Discount and Purchases Discount Columns.* Since the amounts entered in these columns do not affect the cash balance, the addition must be proved before accepting the totals as correct. This proof may be made by use of an adding machine or by auditing the addition. These columns should be footed each time cash is proved.

¶ 4. *To Post from the Debit Side of the Cash Book.* Each amount entered in the first or general ledger column on the debit side, is posted to the credit side of the account in the general ledger written on the same line with it. Each amount entered in the second or sales ledger column is posted to the credit side of the customer's account in the sales ledger, written on the same line with it; if discount is allowed, the amount of this, which is entered in the third or discount column, is posted to the credit side of the customer's account; the two amounts are posted separately. Amounts entered in the fourth column are not posted until the end of the month, at which time the total only is posted. The amounts entered in the fifth column are not posted, because they represent the amounts deposited in the bank. At the end of each month the total of the second column on the debit side is posted to the credit side of the Sales Ledger account in the general ledger; the total of the third column is posted to the credit side of the Sales Ledger account, and to the debit side of the Sales Discount account; the total of the fourth column is posted to the credit side of the Sales account. The total of the fifth column is not posted, unless an account is kept with the bank in the general ledger. The posting at the end of the month may be made direct or from a journal entry.

¶ 5. *To Post from the Credit Side of the Cash Book.* Each amount entered in the first or general ledger column on the credit side is posted to the debit side of the account in the general ledger, written on the same line with it. Each amount in the second or purchases ledger column is posted to the debit side of the account in the purchases ledger, written on the same line with it; if discount is deducted, the amount of this, which is entered in the third column, is posted to the debit side of the account written on the same line with it; the two amounts are posted separately. Amounts entered in the fourth column are not posted until the end of the month, at which time the total is posted. The amounts entered in the fifth column are not posted, because they represent the amounts withdrawn from the bank. At the end of each month the total of the second column on the credit side is posted to the debit side of the Purchases Ledger account in the general ledger; the total of the third column is posted to the debit side of the Purchases Ledger account, and to the credit side of the Purchases Discount account; the total of the fourth column is posted to the debit side of the General Administrative Expense account. The total of the fifth column is not posted, unless an account is kept with the bank in the general ledger. The posting at the end of the month may be made direct or from a journal entry.

§ 269. **Petty Cash Fund.** All cash received should be deposited, and all payments made by check. If it is necessary to make small payments, these should be made from a fund kept on hand for this purpose. This fund is known as the "Petty Cash Fund" or "Imprest Fund." It is created by withdrawing from the bank an amount sufficient to meet these payments. This may be $10.00, $20.00, $50.00, or $100.00, according to the amounts required. The check needed to establish the fund is entered in the general cash book, the same as other checks, the amount being debited to a Petty Cash Fund or Imprest Fund account in the general ledger. When the fund has been exhausted by the payments, another check is drawn for the amount necessary to replenish the fund. At this time the proper accounts are charged in the general cash book for the payments from the petty cash fund. The amount (balance of the Imprest Fund account) remains the same until the account is closed, which would be at the end of the fiscal period, or when the imprest system is discontinued.

§ 270. **Petty Cash Book.** The object of this book is to provide a record of the payments from the petty cash fund. The ruling will depend upon the



Petty Cash Book

191 July	3	Petty Cash Fund Check No. 1	20			
	6	General Administrative Expense Electric bill			1	50
	11	General Administrative Expense Wastebasket $1, telegram 50 pencils $1 50			3	
	14	General Administrative Expense Charges on two N.Y. drafts				25
	31	General Administrative Expense Postal cards			1	50
	31	Delivery Expense Repairs on harness			1	
Aug	4	General Administrative Expense Gas bill			2	
		Balance				65
			20		20	
		Balance		65		
	7	Petty Cash Fund Check No. 37	19	35		

Illustration No. 101, Petty Cash Book, Corporation Set.

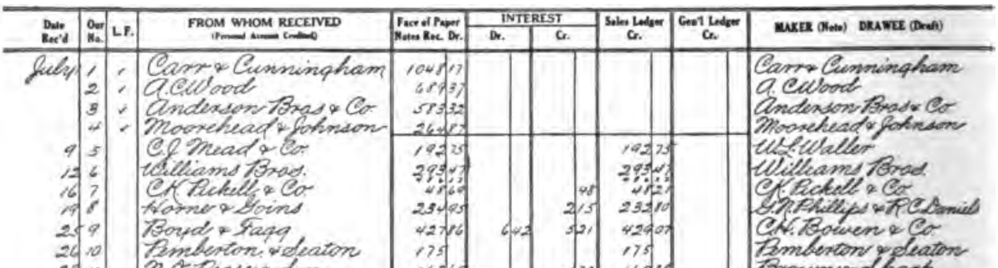
distribution of the payments. Unless the payments and the number of accounts affected are numerous, only two columns are necessary—one for receipts and the other for payments. It is ruled and footed when the fund is renewed, and if any balance remains, this is carried down below the ruling. Illustration No. 101 shows the method of recording transactions in this book where only two columns are used.

¶ 1. *To Prove the Petty Cash Book.* The money which represents the petty cash fund should be kept in a compartment separate from the cash to be deposited. The balance in this compartment should be the same as the difference between the receipts and payments in the petty cash book; this proof should be made at least once each week.

¶ 2. *To Audit the Petty Cash Book.* The bookkeeper should require a voucher (receipt) for each payment from the petty cash fund. When the fund is exhausted these vouchers are attached to the check which created it, or properly filed. The auditor will check the receipt column with the canceled checks, and the payment column with the voucher for each payment. The bookkeeper should insist upon this audit being made at least once each year, and require a receipt from the auditor at the time each audit is made.

§ 271. Notes Receivable Book. In this set the notes receivable book is used as a book of original entry, and ruled with five money columns, as follows: 1st, Face of Note; 2d, Interest, Dr.; 3d, Interest, Cr.; 4th, Sales Ledger, Cr.; 5th, General Ledger, Cr. See Illustration No. 102. When the notes receivable book is used as a book of original entry, transactions affecting the Notes Receivable account are not entered in the journal. It is not good practice to enter part of a transaction in one book and part in another, hence special columns are provided for Interest and General Ledger, Cr.

When a note is received from a customer, either in full or on account, and when no interest or discount is involved, the face of the note is entered in the first and fourth columns, and the other columns are filled out according to the facts on the note. If the customer receives credit for interest in addition to the face of the note, the amount of the interest is entered in the second column and added to his credit in the fourth column. If there is discount and he receives credit for less than the value of the note, the amount of the discount is entered in the third column and deducted from his credit in the fourth column. If the transaction involves both interest and discount the interest is entered in the second column, the discount in the third



Notes Receivable

Date Rec'd	Our No.	L.F.	FROM WHOM RECEIVED (Personal Account Credited)	Face of Paper Notes Rec. Dr.	INTEREST Dr.	INTEREST Cr.	Sales Ledger Cr.	Gen'l Ledger Cr.	MAKER (Note) DRAWEE (Draft)
July 1	1	✓	Carr & Cunningham	1048 17					Carr & Cunningham
	2	✓	A. C. Wood	689 37					A. C. Wood
	3	✓	Anderson Bros & Co	585 32					Anderson Bros & Co
	4	✓	Moorehead & Johnson	264 87					Moorehead & Johnson
9	5		C. J. Mead & Co.	192 75			192 75		W. L. Waller
13	6		Williams Bros.	293 47			293 47		Williams Bros.
16	7		C. K. Pickell & Co	48 69		48	48 21		C. K. Pickell & Co
19	8		Horne & Goins	234 95		2 15	232 80		G. N. Phillips & R. C. Daniels
25	9		Boyd & Fagg	427 86	6 42	5 21	429 07		C. H. Bowen & Co.
26	10		Pemberton & Seaton	175			175		Pemberton & Seaton
28	11		N. D. Pease & Son	163 65		1 77	160 88		Brown & Sharp
				1535 97	6 42	9 61	1535 18		
Aug 1	12		C. A. Norman	1000		10 89		989 11	Robt. H. Ingersoll

Illustration No. 102, Left Page of Notes Receivable Book, Corporation Set.

column and the amount with which the customer is credited in the fourth column; the amount entered in the fourth column will be the face of the note plus or minus the difference between the interest and discount. When the note received affects a general ledger account and not an account in the Sales Ledger, the face of the note is entered in the first and fifth columns, the name of the general ledger account affected being written in the space at the right of the fifth column.

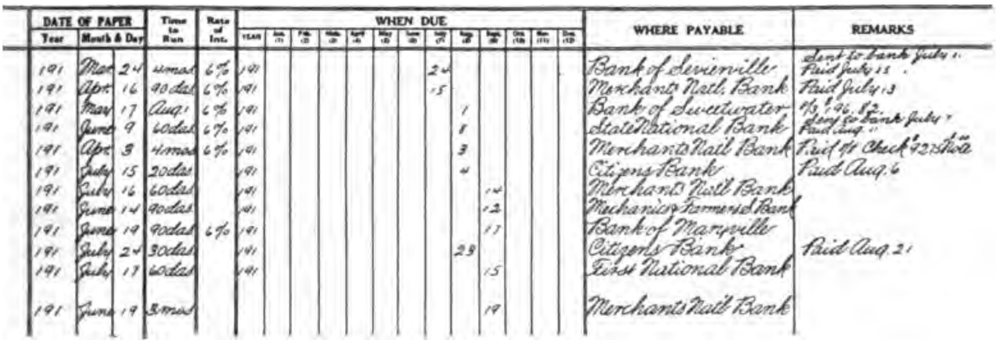
¶ 1. *To Post from the Notes Receivable Book.* Amounts entered in the first, second and third columns are not posted until the end of the month. Each amount entered in the fourth column is posted to the credit side of the customer's account written in the "Personal Account Credit" column at the left; these entries are posted each day. Amounts entered in the fifth column are posted to the credit side of the general ledger account written in the first column to the right of the amount.

At the end of the month prove the totals to be correct and post as follows: total of the first column to the debit side of the Notes Receivable account in the general ledger; second column, debit side of the Interest account, and third column, credit side of the Interest account in the general ledger; fourth column, credit side of the Sales Ledger account in the general ledger; the total of the fifth column is not posted; this posting may be direct, or from a special journal entry.

¶ 2. *To Prove the Notes Receivable Book.* List the amount of each note or accepted draft in the safe or at the bank. The total should be the same as the amount of unpaid notes on hand as shown by the notes receivable book. Information relative to notes at the bank should appear in the remarks column. A list of the notes indicated by schedule number should accompany the Balance Sheet.

§ **272. Notes Payable Book.** In this set the notes payable book is used as a book of original entry, and ruled with five money columns, as follows: 1st, Face of Note; 2d, Interest, Dr.; 3d, Interest, Cr.; 4th, Purchases Ledger, Dr.; 5th, General Ledger, Dr. See Illustration No. 103. When the notes payable book is used as a book of original entry, transactions affecting the Notes Payable account are not entered in the journal.

When a note is given a creditor either on account or in full and when no interest or discount is involved, the face of the note is entered in the first and fourth columns,

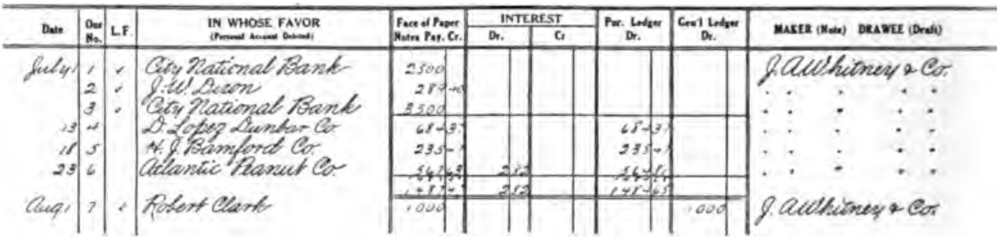


Notes Receivable

DATE OF PAPER		Time to Run	Rate of Int.	WHEN DUE													WHERE PAYABLE	REMARKS
Year	Month & Day			YEAR	Jan. (1)	Feb. (2)	Mar. (3)	April (4)	May (5)	June (6)	July (7)	Aug. (8)	Sept. (9)	Oct. (10)	Nov. (11)	Dec. (12)		
191	Mar. 24	4 mos	6%	191							24						Bank of Sevierville	Sent to bank July 1. Paid July 15
191	Apr. 16	90 das	6%	191							15						Merchants Natl. Bank	Paid July 13
191	May 17	Aug. 1	6%	191								1					Bank of Sweetwater	P/S $96.82
191	June 9	60 das	6%	191								8					State National Bank	Sent to bank July 7 Paid Aug. 8
191	Apr. 3	4 mos	6%	191								3					Merchants Natl. Bank	Paid by Check $4275.00
191	July 15	20 das		191								4					Citizens Bank	Paid Aug. 6
191	July 16	60 das		191									14				Merchants Natl. Bank	
191	June 14	90 das		191									12				Mechanics & Farmers Bank	
191	June 19	90 das	6%	191									17				Bank of Maryville	
191	July 24	30 das		191								23					Citizens Bank	Paid Aug. 21
191	July 17	60 das		191									15				First National Bank	
191	June 19	3 mos											19				Merchants Natl. Bank	

Illustration No. 102, Right Page of Notes Receivable Book, Corporation Set.

Notes Payable



Date	Our No.	L.F.	IN WHOSE FAVOR (Personal Account Debited)	Face of Paper Notes Pay. Cr.	INTEREST Dr.	INTEREST Cr	Pur. Ledger Dr.	Gen'l Ledger Dr.	MAKER (Note) DRAWEE (Draft)
July 1	1	✓	City National Bank	2500					J. A. Whitney & Co.
	2	✓	J. W. Dixon	289 40					· · · · ·
	3	✓	City National Bank	3500					· · · · ·
13	4		D. Lopez Lumber Co.	68 37			68 37		· · · · ·
18	5		H. J. Bamford Co.	235 17			235 17		· · · · ·
23	6		Atlantic Peanut Co.	547 49	2 12		[illegible]		· · · · ·
				[illegible]	2 12		[illegible]		
Aug 1	7	✓	Robert Clark	1000				1000	J. A. Whitney & Co.

Illustration No. 103, Left Page of Notes Payable Book, Corporation Set.

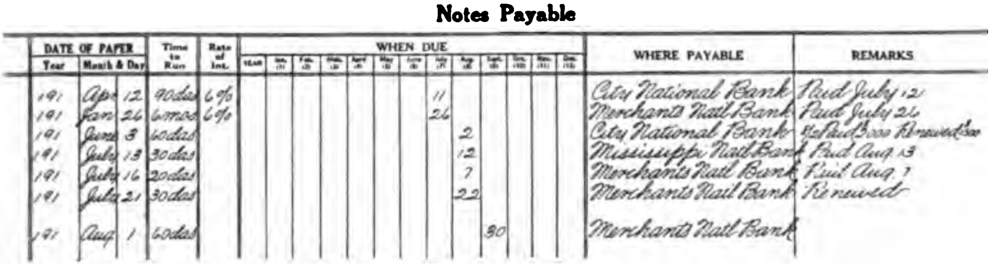
and the other columns are filled out according to the facts on the note. If the creditor is charged with interest in addition to the face of the note the amount of the interest is entered in the third column and added to the amount charged in the fourth column. If there is discount and credit is received for less than the value of the note, the amount of the discount is entered in the second column and deducted from the amount charged in the fourth column. If the transaction involves both interest and discount the discount is entered in the second column, the interest in the third and the amount with which the creditor is charged in the fourth column; the amount entered in the fourth column will be the face of the note plus or minus the difference between the interest and discount. When the note signed affects a general ledger account and not an account in the purchases ledger, the face of the note is entered in the first and fifth columns, and the name of the general ledger account is written in the space at the right of the fifth column.

¶ 1. *To Post from the Notes Payable Book.* Amounts entered in the first, second and third columns are not posted until the end of the month. Each amount entered in the fourth column is posted to the debit side of the creditor's account written in the "Personal Account Debit" column at the left; these entries are posted each day. Amounts entered in the fifth column are posted to the debit side of the general ledger account written at the right of the amount.

At the end of the month prove the totals to be correct and then post as follows: total of the first column to the credit side of the Notes Payable account in the general ledger; second column, debit side of the Interest account in the general ledger; third column, credit side of the Interest account in the general ledger; fourth column, debit side of the Purchases Ledger account in the general ledger; the total of the fifth column is not posted; the posting may be direct or from a special journal entry.

¶ 2. *To Prove the Notes Payable Book.* The notes payable book is proved the same as the notes receivable book, and the record of notes paid is entered in the remarks column in the same manner.

§ 273. **Sales Returns Book.** The object of this book is to keep a record of the goods returned by customers. There are various reasons why a customer will return goods, and so long as this is true, it is better practice to accept the goods and credit the customer's account with their value. A credit bill is sent for goods when they are received, so that the customer will know that his account has been credited. The goods are checked up by the shipping clerk or receiving clerk, and a list made showing the items contained in the shipment. If the freight is not prepaid, the amount of this is entered so that it may be deducted from his credit. The list is then given to the bookkeeper, who makes the extensions from



Notes Payable

DATE OF PAPER			Time to Run	Rate of Int.	WHEN DUE													WHERE PAYABLE	REMARKS
Year	Month & Day				YEAR	Jan. (1)	Feb. (2)	Mar. (3)	April (4)	May (5)	June (6)	July (7)	Aug. (8)	Sept. (9)	Oct. (10)	Nov. (11)	Dec. (12)		
191	Apr	12	90 das	6%								11						City National Bank	Paid July 12
191	Jan	26	6 mos	6%								26						Merchants Natl Bank	Paid July 26
191	June	3	60 das										2					City National Bank	8/2 Paid $300 Renewed $300
191	July	13	30 das										12					Mississippi Natl Bank	Paid Aug 13
191	July	16	20 das										7					Merchants Natl Bank	Paid Aug 7
191	July	21	30 das										22					Merchants Natl Bank	Renewed
191	Aug	1	60 das											30				Merchants Natl Bank	

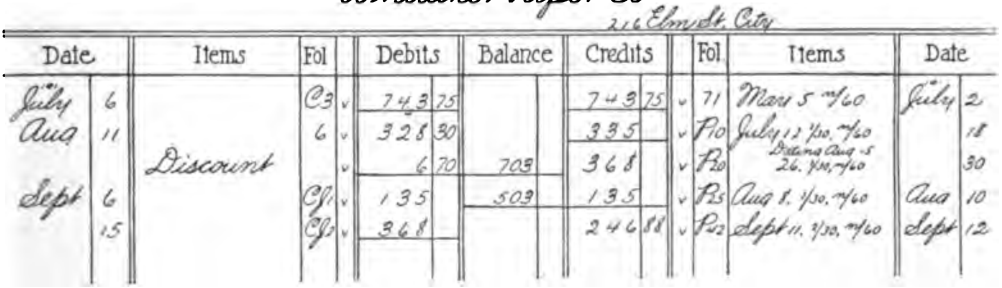
Illustration No. 103, Right Page of Notes Payable Book, Corporation Set.

the prices on the bill, enters the items in the sales returns book, and sends a credit bill. Many firms use the same list made out by the shipping or receiving clerk as a credit bill. In such a case, the bookkeeper enters the extensions according to the prices mentioned on the bill sent when the goods were sold, makes a record in the sales returns book, and mails the credit bill to the customer.

¶.1. *Posting from the Sales Returns Book.* Each amount in the second column is posted to the credit side of the customer's account in the sales ledger, written on the same line with it. At the end of the month the book is ruled and footed, and the total is posted to the debit side of the Sales account, and to the credit side of the Sales Ledger account in the general ledger; the posting may be direct or from a special journal entry.

§ 274. **General Ledger.** This ledger contains all accounts, except the individual accounts with creditors (persons or firms from whom goods are purchased on account) and the individual accounts with customers (persons or firms to whom goods are sold on account). All accounts with creditors are represented by the Purchases Ledger account, and all accounts with customers, by the Sales Ledger account. The Trial Balance is made from the general ledger.

§ 275. **Purchases Ledger.** This ledger contains an account with each person, firm or corporation from whom merchandise or other property is purchased on account. The accounts are debited and credited in the same manner as when they are kept in one general ledger. The blank used in this set is ruled with three money columns placed in the center of the page; the one on the left is for debits and the one on the right for credits; the center column is for balances at the time the ledger is proved. The date for each debit item is entered at the left, and for each credit item at the right. See Illustration No. 104.



Whitaker Paper Co
216 Elm St. City

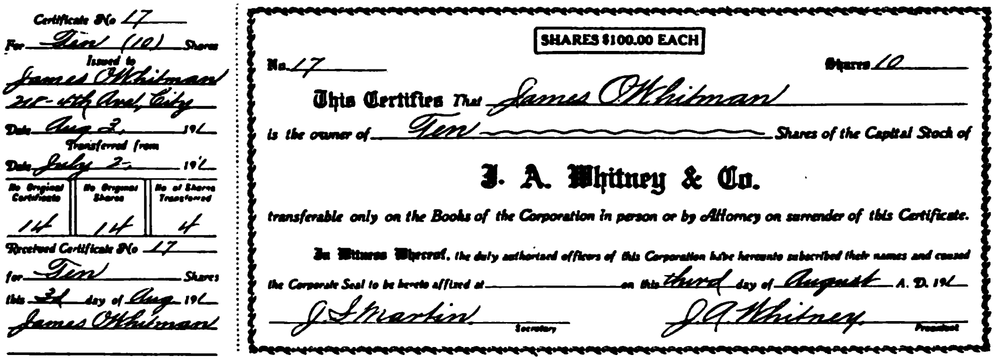
Date		Items	Fol		Debits	Balance	Credits		Fol	Items	Date	
July	6		C3	√	743 75		743 75	√	71	Mar 5 n/60	July	2
Aug	11		6	√	328 30		335	√	P10	July 12 1/10, n/60		18
		Discount		√	6 70	703	368	√	P20	Dating Aug 5 26. 1/10, n/60		30
Sept	6		C4	√	135	503	135	√	P25	Aug 1. 1/30, n/60	Aug	10
	15		C5	√	368		246 88	√	P22	Sept 11. 1/30, n/60	Sept	12

Illustration No. 104, Ruling for Purchases and Sales Ledgers, Corporation Set.

This ledger is not proved until a Trial Balance has been made from the general ledger. The amount due each creditor is entered in the balance column. (If there are no entries on the debit side, the balance is the total of the credit side. If there is only one entry on the credit side, this is the balance.) These balances are transferred to a sheet of paper or to a trial balance book and added. If correct, the total will be the same as the balance of the Purchases Ledger account in the general ledger. If the totals do not agree, it is necessary to check the work in this ledger in the same manner as checking to detect an error in the Trial Balance.

§ **276. Sales Ledger.** This ledger contains an account with each person to whom the business sells merchandise or other property on account. It is ruled similar to the purchases ledger, and the columns are used in the same manner. This ledger is proved to be correct by comparing the total due from customers with the balance of the Sales Ledger account in the general ledger. This proof is not made until after the Trial Balance has been made. The amount due from each customer is entered in the balance column. (If there are no entries on the credit side, the total of the debit side is the balance; if there is only one entry on the debit side, this is the balance.) These balances are transferred to a sheet of paper or trial balance book and added. If correct, the total will be the same as the balance of the Sales Ledger account in the general ledger. If the totals do not agree, it is necessary to check the work in this ledger in the same manner as in detecting errors in the Trial Balance.

§ **277. Stock Certificate Book.** This is made up of blank stock certificates and stubs as shown in Illustration No. 105. When a certificate is issued, the facts are shown on the stub and transferred to the stock ledger, where an account is kept with each stockholder. The facts on the stub must be the same as those on the certificate, otherwise the record will not be correct. If a number of certificates are issued, each should be entered in a stock journal, and the facts posted from this to the stock ledger.



Certificate No. 17
For Ten (10) Shares
Issued to
James O. Whitman
218 - 4th Ave., City
Date Aug 3 192
Transferred from
Date July 2 192

No. Original Certificate	No. Original Shares	No. of Shares Transferred
14	14	4

Received Certificate No. 17
for Ten Shares
this 3d day of Aug 192
James O. Whitman

SHARES $100.00 EACH

No. 17 Shares 10

This Certifies That James O. Whitman
is the owner of Ten Shares of the Capital Stock of

J. A. Whitney & Co.

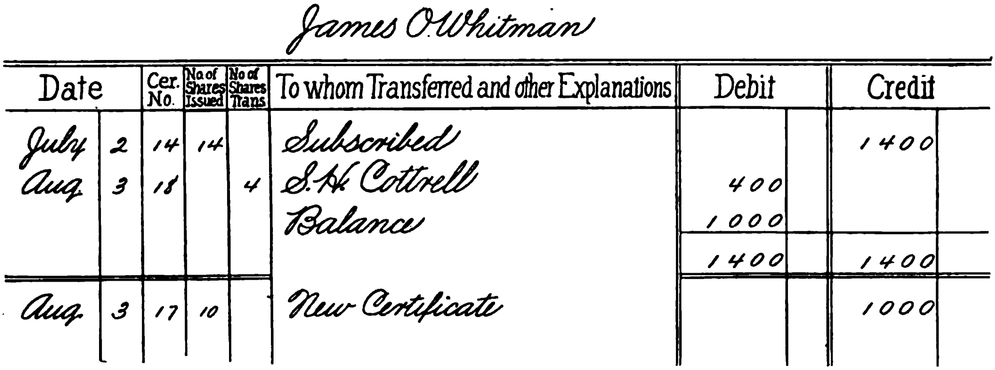
transferable only on the Books of the Corporation in person or by Attorney on surrender of this Certificate.

In Witness Whereof, the duly authorized officers of this Corporation have hereunto subscribed their names and caused the Corporate Seal to be hereto affixed at ______ on this third day of August A. D. 192

J. L. Martin, Secretary
J. A. Whitney, President

Illustration No. 105, Stock Certificate and Stub, Corporation Set.

§ **278. Stock Ledger.** This ledger contains an account with each stockholder showing the par value of stock owned by him. Each account is credited with the par value of stock when purchased, and charged with the par value of stock when ordered transferred. The facts are posted from the stub of the stock certificate book or stock journal, as explained in § 277. The total of the balances of all the accounts in this ledger must equal the balance of the Capital Stock account, less the Unissued Stock. Illustration No. 106 shows one form of the stock ledger.



James O. Whitman

Date		Cer. No.	No. of Shares Issued	No. of Shares Trans.	To whom Transferred and other Explanations	Debit		Credit	
July	2	14	14		Subscribed			1400	
Aug.	3	18		4	S. H. Cottrell	400			
					Balance	1000			
						1400		1400	
Aug.	3	17	10		New Certificate			1000	

Illustration No. 106, Stock Ledger, Corporation Set.

¶ 1. *Stock Transferred.* When a stockholder sells a part or all of his stock, the purchaser should have the stock purchased transferred on the books of the corporation. This is necessary in order that he may receive his share of the dividends authorized by the board of directors. Certificates are usually provided with a printed form on the back authorizing the transfer. The possession of a stock certificate with the written authority of the original owner ordering the transfer is evidence that the holder has purchased it, and a new certificate is issued in his favor. If the stockholder has a certificate for a number of shares and wishes to sell only a part of it, it is necessary for him to surrender the certificate and have two new ones issued, one for the number sold and the other for the number he retains. The canceled certificate should be pasted on the original stub of the stock certificate book, thus providing a permanent record of all such certificates.

§ 279. **Check Book.** The check book used in this set contains three checks to the page. Since the bank account is kept in the special columns on each side of the cash book, no column is provided for the bank account on the check stub. With each check is provided a voucher form which should contain full information in regard to the purpose of the payment. The endorsement of the payee acknowledges the acceptance of the check. This form of voucher check is very popular and is rapidly taking the place of the large vouchers formerly used.

POWER OF ATTORNEY.

§ 280. **A Power of Attorney** is the written evidence of authority granted an individual who is to act as agent for another. It is not necessary for the bookkeeper for an individual, partnership, or corporation to have a power of attorney authorizing him to sign papers received in everyday business, yet it is the better policy for him to have this, as it protects him in case of dispute. This is particularly true with a corporation, as no one is authorized to transact business for a corporation, except by authority of the board of directors. The power of attorney may be given by authority of the board of directors at a regular meeting or a special meeting. If the authority is granted at a meeting and properly recorded in the minute book, the bookkeeper is protected, even though he does not have the written power of attorney. However, it is better for him to have this, and he should always insist on it, especially where he has to sign any commercial paper that binds the corporation.

EXHIBITS AND SCHEDULES.

§ 281. **An exhibit** is a statement of material facts in regard to the financial condition of the business. As applied to the Statement of the Business, the Balance Sheet is usually designated as Exhibit A, the Profit and Loss statement, Exhibit B and the analysis of the Surplus account, Exhibit C. Accompanying the exhibits should be schedules setting forth the important facts concerning the accounts appearing in connection with the exhibits.

¶ 1. *A Schedule* is a detailed list of the property represented by an account on the Balance Sheet. Where more than one schedule accompanies the Balance Sheet, each may be represented by a number, beginning with "1". Schedules usually show detailed information concerning the cash balance, salable merchandise in stock, notes due the business, accounts due from customers, office equipment and other fixed assets, insurance policies, etc. When an account is supported by a schedule, its number should be indicated on the Balance Sheet.

¶ 2. *Analytical Statement.* This term, as generally used, is synonymous with schedule as explained above. If there is any distinction, it is that the analytical statement sets forth more detailed information than the schedule. The term is sometimes applied to the detailed analysis of the accounts on the Profit and Loss statement. This may include a detailed statement of any income or operating account. If more than one analytical statement accompanies the Profit and Loss statement, each should be designated by number, the same as a schedule. An analytical statement may not only show the various debits and credits that go to make up the accounts represented on the exhibit, but may also show a comparison with a previous period or periods. This additional information is very valuable because the management should know not only the increase or decrease in the cost of selling expense, general administrative expense or other operating costs, but also the percentage of increase or decrease. Illustration No. 107 shows one form of an analytical statement. As explained at the beginning of this paragraph, this may be designated as a schedule.

ANALYSIS OF GENERAL ADMINISTRATIVE EXPENSE ACCOUNT FOR JULY AND AUGUST

Stationery, stamps and office supplies on hand	79	68		
Rent	300	00		
Pay roll, office employees	715	60		
Collection charges on checks, notes and drafts	13	50		
Postage	33	50		
Office supplies	31	75		
Light and water	5	25		
Telegrams	1			
Insurance on stock and office equipment	20	63		
Depreciation on office equip. and store fixtures	25	50		
Total expenses, General Admr. Expense Acct. Dr.			1226	41
Less stationery, stamps, etc., G. A. Exp. Cr.			82	65
Net expenses, per Profit and Loss statement			1143	76

Illustration No. 107, Analysis of General Administrative Expense Account in Illustration No. 113.

J. A. WHITNEY & CO.

TRIAL BALANCE, AUGUST 31, 191..

Capital Stock			50000	00
Unissued Capital Stock	9000	00		
Treasury Stock	500	00		
Cash	2456	36		
Notes Receivable	2988	99		
Sales Ledger	10997	99		
J. C. Bell	487	15		
Good Will	5063	43		
P. C. C. & St. L. Ry.	10	95		
Office Equipment	500	00		
Store Fixtures	350	00		
Delivery Equipment	3018	00		
Land	800	00		
Building	450	00		
Notes Payable			5014	28
Purchases Ledger			17953	02
Purchases	31837	52	169	32
Inventory	14606	05		
Sales	301	21	20981	52
Sales Discount	166	47		
Purchases Discount			568	09
Sales Rebates and Allowances	120	11		
Freight Out	43	85		
Salaries in Selling Department	567	39		
Adjustments of Errors in Previous Period			1	65
Profit on Sale of Stock			85	00
General Administrative Expense	1030	28		
Advertising	293	56		
Warehouse Expense	393	45		
Delivery Expense	152	40		
Insurance	219	05		
Interest	138	48	86	80
Building Expense and Revenue			50	00
Freight In	614	03		
Branch Store	10920	79	3373	52
Traveling Expense	480	65		
Reserve for Doubtful Accounts			112	86
Reserve for Depreciation of Office Equip.			27	25
Reserve for Depreciation of Store Fix.			37	75
Reserve for Depreciation of Delivery Equip.			47	10
	98508	16	98508	16

Merchandise Inventory, Aug. 31, 191..,	31261.78
Branch Store, Schedule 2,	9127.65
Insurance Expired,	27.80
Accrued Assets:	
Interest accrued on notes receivable,	14.93
August rent of house at 216 Cherry St.,	27.50
Accrued Liabilities:	
Unpaid freight on merchandise purchased,	340.29
Rent for August unpaid,	150.00
Pay roll of employees of Branch Store for 5 days,	135.42
Traveling expenses of J. C. Bell to the 31st,	87.65
Bill for board of horses, and garage bill,	122.50
Deferred Charges to Operations:	
Stamps, stationery, etc., on hand,	82.65
Advertising matter on hand,	119.65
Warehouse supplies on hand,	63.75

Depreciation:
    Building, 5% , Delivery Equipment, 4%
    Store Fixtures and Office Equipment, each 3%
Reserve for Doubtful Accounts:
    1% of debit balance of personal accounts.

Illustration No. 108, Trial Balance, Corporation Set.

EXPLANATION. The above illustration shows (a), the Trial Balance at the close of a fiscal period; (b), the merchandise and branch store inventories, expired insurance, accrued assets, accrued liabilities, deferred charges to operations, and reserves, for which adjusting entries must be made.

J. A. WHITNEY & CO.

WORKING SHEET, AUGUST 31, 191...

	Trial Balance				Adjustments				Losses - Profits				Assets-Liabilities			
	Dr.		Cr.		Dr.		Cr.		Dr.		Cr.		Dr.		Cr.	
Capital Stock..........			50000	00											50000	00
Unissued Capital Stock.	9000	00											9000	00		
Treasury Stock.........	500	00											500	00		
Cash...................	2456	36											2456	36		
Notes Receivable.......	2988	99											2988	99		
Sales Ledger...........	10997	99											10997	99		
J. C. Bell.............	487	15											487	15		
Good Will..............	5063	43											5063	43		
P. C. C. & St. L. Ry...	10	95											10	95		
Office Equipment.......	500	00											500	00		
Store Fixtures.........	350	00											350	00		
Delivery Equipment.....	3018	00											3018	00		
Land...................	800	00											800	00		
Building...............	450	00											450	00		
Notes Payable..........			5014	28											5014	28
Purchases Ledger.......			17953	02											17953	02
Purchases..............	31837	52	169	32			31261	78	406	42						
Inventory........... ..	14606	05			31261	78			14606	05			31261	78		
Sales..................	301	21	20981	52							20680	31				
Sales Discount.........	166	47							166	47						
Purchases Discount.....			568	09							568	09				
Sales Reb. and Allow...	120	11							120	11						
Freight Out............	43	85							43	85						
Salaries in S. Dept....	567	39							567	39						
Adjustments............			1	65							1	65				
Profit on Sale of Stock			85	00							85	00				
Gen'l Admr. Expense....	1030	28			*196	13	^{5}82	65	1143	76						
Advertising............	293	56					^{5}119	65	173	91						
Warehouse Expense......	393	45					^{5}63	75	329	70						
Delivery Expense.......	152	40			†250	39			402	79						
Insurance..............	219	05					^{2}27	80					191	25		
Interest...............	138	48	86	80			^{3}14	93	36	75						
Bldg. Exp. and Revenue.			50	00	^{6}22	50	^{3}27	50			55	00				
Freight In.............	614	03			^{4}340	29			954	32						
Branch Store...........	10920	79	3373	52	^{4}135	42	^{1}9127	65			1444	96				
Traveling Expense......	480	65			^{4}87	65			568	30						
Res. for Doubt. Accts..			112	86			^{7}109	98							222	84
Res. for Dep. of O. E..			27	25			^{6}15	00							42	25
Res. for Dep. of S. F..			37	75			^{6}10	50							48	25
Res. for Dep. of D. E..			47	10			^{6}120	72							167	82
Res. for Dep. of Bldg..							^{6}22	50							22	50
Branch Store Inventory.					^{1}9127	65							9127	65		
Loss on Doubtful Accts.					^{7}109	98			109	98						
Accrued Assets.........					^{3}42	43							42	43		
Accrued Liabilities....							^{4}835	86							835	86
Deferred Charges to O..					^{3}266	05							266	05		
	98508	16	98508	16	41840	27	41840	27	19629	80	22835	01	77512	03	74306	82
Profit for the period..									3205	21					3205	21
									22835	01	22835	01	77512	03	77512	03

Illustration No. 109, Working Sheet.

EXPLANATION. The facts in connection with this Working Sheet are obtained from the Trial Balance in Illustration No. 108, and the inventories, accruals and deferred items shown in connection with it. The purpose of the Working Sheet is to ascertain the profit or loss for the period and to prepare the facts for the adjusting entries before the final Trial Balance is made. The Trial Balance is entered in the first two columns; the inventories, accruals, deferred items and depreciations are entered in the Adjustment columns, each on a line with the account affected, also on a line with the new account to represent it on the final Trial Balance. Debit amounts on the Trial Balance are entered in the Losses or in the Assets column, and credit amounts, in the Profits or in the Liabilities column. Where adjustments affect these accounts, debit adjustments are added to the debit amount on the Trial Balance, and credit adjustments to the credit amount on the Trial Balance. New accounts caused by the adjustments are entered below the Trial Balance accounts. The pen-written figures to the left of the amounts in the adjustment columns refer to the number of the journal entry in Illustration No. 110. After all the extensions have been made, the debit and credit columns of the Trial Balance, and the debit and credit columns of the Adjustments will balance, and the difference between the Losses and Profits columns and the difference between the Assets and Liabilities column will show the net profit.

*This amount consists of the following: expired insurance, $20.63 (2d entry); unpaid rent, $150.00 (4th entry); depreciation on office equipment and store fixtures, $25.50 (6th entry).

†This amount consists of expired insurance on delivery equipment, $7.17 (2d entry); bill for board of horses, $122.50 (4th entry); depreciation on delivery equipment, $120.72 (6th entry).

August 31, 191....

	Branch Store Inventory	9127	65		
1	Branch Store			9127	65
	Total assets of the branch store per schedule 2.				
	31				
	General Administrative Expense	20	63		
2	Delivery Expense	7	17		
	Insurance			27	80
	Expired insurance for the fiscal period.				
	31				
	Accrued Assets	42	43		
3	Interest			14	93
	Bldg. Expense and Revenue			27	50
	Interest accrued on notes receivable and August rent of house at 216 Cherry St.				
	31				
	Freight In	340	29		
	General Administrative Expense	150	00		
4	Branch Store	135	42		
	Traveling Expense	87	65		
	Delivery Expense	122	50		
	Accrued Liabilities			835	86
	Unpaid freight bills, rent for August, pay roll of employees of branch store for five days, traveling expenses of J. C. Bell, and garage bill and bill for board of horses.				
	31				
	Deferred Charges to Operations	266	05		
5	General Administrative Expense			82	65
	Advertising			119	65
	Warehouse Expense			63	75
	Stamps, stationery, etc., on hand, $82.65; advertising matter on hand, $119.65; warehouse supplies on hand, $63.75.				
	31				
	Buildings Expense and Revenue	22	50		
	General Administrative Expense	25	50		
	Delivery Expense	120	72		
6	Reserve for Dep. of Building			22	50
	Reserve for Dep. of Office Equipment			15	00
	Reserve for Dep. of Store Fixtures			10	50
	Reserve for Dep. of Delivery Equipment			120	72
	5% depreciation on building, 3% on office equipment and store fixtures, and 4% on delivery equipment.				
	31				
	Loss on Doubtful Accounts	109	98		
7	Reserve for Doubtful Accounts			109	98
	1% of debit balance of personal accounts set aside as a reserve for doubtful accounts.				

Illustration No. 110, Adjusting Entries, Close of Fiscal Period, Corporation Set.

EXPLANATION. This illustration shows the entries for the branch store inventory, expired insurance, accrued assets, accrued liabilities, deferred charges to operations, and the reserves given in Illustration No. 108. The entry for the merchandise inventory is included in that constructed to close the trading accounts into the Profit and Loss account. See Working Sheet, Illustration No. 109, and the explanation given in connection with it.

J. A. WHITNEY & CO.

TRIAL BALANCE, AUGUST 31, 191...

Capital Stock			50000	00
Unissued Capital Stock	9000	00		
General Administrative Expense	1226	41	82	65
Advertising	293	56	119	65
Warehouse Expense	393	45	63	75
Delivery Expense	402	79		
Insurance	219	05	27	80
Interest	138	48	101	73
Building Expense and Revenue	22	50	77	50
Freight In	954	32		
Branch Store	11056	21	12501	17
Traveling Expense	568	30		
Reserve for Doubtful Accounts			222	84
Reserve for Depreciation of Office Equip.			42	25
Reserve for Depreciation of Store Fix.			48	25
Reserve for Depreciation of Del. Equip.			167	82
Reserve for Depreciation of Building			22	50
Branch Store Inventory	9127	65		
Loss on Doubtful Accounts	109	98		
Accrued Assets	42	43		
Accrued Liabilities			835	86
Deferred Charges to Operations	266	05		
	109086	65	109086	65

Illustration No. 111, Final Trial Balance, Corporation Set.

EXPLANATION. The above illustration shows the final Trial Balance after the adjusting entries in Illustration No. 110 have been posted. Only those accounts that change are shown as the Trial Balance in Illustration No. 108 shows the others.

STATEMENT OF THE BUSINESS FOR A CORPORATION.

§ 282. **The Statement of the Business** for a corporation does not differ from that of a partnership where the nature of the business is the same, except in the manner of distributing the profit. Illustrations Nos. 112 and 113 show the form of a statement for a corporation, but may apply to a business conducted by an individual or partners. In an individual business the profit is usually transferred to the Proprietor's Capital account; in a partnership, to the Partners' Capital accounts; and in a corporation to the Surplus account. The information given in §§ 283 and 284 refers to the Balance Sheet and Profit and Loss statement given in Illustrations Nos. 112 and 113.

§ 283. **Balance Sheet.** This consists of (a) the current and fixed assets and (b) the current and fixed liabilities arranged in the order of their availability.

¶ 1. *The Current Assets* consist of the cash in Merchants National Bank, the petty cash fund (cash in the drawer), the notes receivable, amounts due from customers less the reserve set aside to take care of doubtful accounts, a freight claim against the P. C. C. & St. L. Ry., inventory of salable merchandise on hand at the end of the fiscal period, which is August 31, inventory of property at the branch store.

The accrued assets consist of the accrued interest on notes due the business and the rent of the house owned by the business, accrued but not due.

J. A. WHITNEY & CO.

BALANCE SHEET, AUGUST 31, 191..

Current and Accrued Assets:					
Cash in Merchants National Bank	2436.36				
Petty cash fund	20.00	2456	36		
Notes Receivable		2988	99		
Accounts Receivable	10997.99				
Deduct Res. for Doubtful Accts.	222.84	10775	15		
J. C. Bell		487	15		
P. C. C. & St. L. Ry. Co.		10	95		
Mdse. Inventory, Main Store, Aug. 31, 191..		31261	78		
Inventory, Branch Store, Aug. 31, 191..		9127	65		
Interest Accrued on Notes Receivable		14	93		
August rent of house at 215 Cherry St.		27	50		
Total Current and Accrued Assets				57150	46
Fixed Assets:					
Land		800	00		
Building	450.00				
Deduct Reserve for Depreciation	22.50	427	50		
Office Equipment	500.00				
Deduct Reserve for Depreciation	42.25	457	75		
Store Fixtures	350.00				
Deduct Reserve for Depreciation	48.25	301	75		
Delivery Equipment	3018.00				
Deduct Reserve for Depreciation	167.82	2850	18		
Total Fixed Assets				4837	18
Deferred Charges to Operations:					
Insurance Unexpired		191	25		
Stamps, stationery, etc., on hand		82	65		
Advertising matter on hand		119	65		
Warehouse supplies		63	75		
Total Deferred Charges to Operations				457	30
Good Will				5063	43
Total Assets and Deferred Charges				67508	37

Current and Accrued Liabilities:					
Notes Payable		5014	28		
Accounts Payable		17953	02		
Unpaid freight bills		340	29		
August rent		150	00		
Pay roll of Branch Store for 5 days		135	42		
Traveling expenses of J. C. Bell		87	65		
Garage bill and board of horses		122	50		
Total Current & Accrued Liabilities				23803	16
Capital Accounts:					
Capital Stock		50000	00		
Deduct Unissued Capital Stock	9000.00				
" Treasury Stock	500.00	9500	00		
		40500	00		
Add Surplus		3205	21	43705	21
Total Liabilities and Capital				67508	37

Illustration No. 112, Balance Sheet, Corporation Set.

EXPLANATION. This Balance Sheet is prepared from the real, valuation, and capital accounts on the final Trial Balance in Illustration No. 111. The accounts omitted from this Trial Balance are shown in Illustration No. 108. If desired, the fixed assets may be listed first. The arrangement of the assets on the left, and the liabilities on the right conforms to standard forms advised by practicing accountants. The arrangement may be the same as the Profit and Loss statement, that is, the assets' first, followed by the liabilities and present capital. The form given here is sometimes referred to as the "Technical" or "Account" form, and the other, the "Report" form.

¶ 2. *Fixed Assets.* These consist of the land, buildings less the reserve for depreciation, office equipment less the reserve for depreciation, store fixtures less the reserve for depreciation, delivery equipment less the reserve for depreciation, deferred charges to operations (unexpired insurance, stamps, stationery, advertising matter, warehouse supplies, etc., on hand), and good will (the amount of good will as shown by the balance of the Good Will account). The total of the current and fixed assets and deferred charges is the total assets of the business.

¶ 3. *Current Liabilities.* These consist of the notes payable, accounts payable, and the accrued liabilities. The Capital Stock, $50,000.00, minus the $9,000.00 Unissued Stock and $500.00 Treasury Stock, is the par value of Capital Stock outstanding; this plus the Surplus is the present capital of the business.

NOTE. Some authorities advise listing the fixed assets first. Either plan is satisfactory, but the one adopted should be continued.

§ 284. **Profit and Loss Statement.** This shows, (a) the gross profit on sales, (b) the cost of operations, (c) other income, and (d) deductions from income. The facts in this statement are obtained from the Trial Balance and the inventory of merchandise on hand at the close of the current fiscal period.

¶ 1. *The Gross Profit on Sales* is the result of the following: (a), the gross returns from sales (credit side of the Sales account); (b), the returns by customers (debit side of the Sales account); (c), the rebates and allowances to customers (balance of the Rebates and Allowances account); (d), discount allowed customers on account of prompt payment (balance of the Sales Discount account); (e), the net returns from sales; (f), the inventory cost of merchandise on hand at the beginning of the period (balance of the Inventory account); (g), invoice cost of merchandise purchased during the period (debit side of the Purchases account); (h), freight on merchandise purchased (balance of the Freight In account); (i), returns, rebates and allowances (credit side of the Purchases account); (j), deductions from purchases on account of prompt payment (balance of the Purchases Discount account); (k), net cost of merchandise purchased; (l), inventory value of merchandise on hand at the close of the fiscal period as shown by the inventory but not represented by an account on the books; (m), the net cost of merchandise sold; (n), the gross profit on sales, which is the difference between the net returns from sales and the net cost of merchandise sold.

¶ 2. *The Cost of Operations.* The operating cost of conducting the business consists of general administrative expense, and selling expense as represented by the numerous selling expense accounts. These are deducted from the gross profit on sales to ascertain the net profit on operations. The deductions are made at this time because the expenses are necessary to produce the returns from sales.

¶ 3. *Other Income or Profits* are shown by the credit side of profit accounts. In the illustration these consist of the credit side of the Interest account, the profit on the branch store, the income from rent on the building, the profit on sale of stock, and an adjustment. The addition of other income to the net profit on operations gives the gross income.

¶ 4. *Deductions from Income.* The deductions from income consist of the debit side of the Interest account and the amount of the reserve set up to take care of possible losses on account of doubtful accounts. The total of these two losses is deducted from the gross income to ascertain the net profit for the period.

The net profit for the period as shown by the Profit and Loss statement added to the investment gives the Present Capital shown by the Balance Sheet. No facts in connection with either the Balance Sheet or Profit and Loss statement can be considered correct until these two amounts agree.

The net profit is credited to the Surplus account. When the board of directors has decided on the amount of dividend to be declared, this is taken out of the Surplus and credited to the Dividend account.

J. A. WHITNEY & CO.

STATEMENT OF PROFIT AND LOSS FOR PERIOD, JULY 2, 191.. to AUGUST 31, 191..

Returns from Sales:					
Gross Sales				20981	52
Deduct Sales Returns		301	21		
" " Rebates and Allowances		120	11		
" " Discount		166	47	587	79
Net returns from merchandise sold				20393	73
Cost of Sales:					
Merchandise Inventory, July 2, 191..	14606.05				
Merchandise Purchases	31837.52				
Freight on Purchases	954.32	47397	89		
Deduct Purchases Returns and Allow.	169.32				
" " Discount	568.09	737	41		
Net cost of merchandise purchased		46660	48		
Deduct Merchandise Inventory, Aug. 31, 191..		31261	78		
Net cost of merchandise sold				15398	70
Gross Profit on Sales				4995	03
Operating Expenses:					
General Administrative Expense		1143	76		
Selling Expenses:					
Salaries in Selling Department	567.39				
Freight Out	43.85				
Advertising	173.91				
Traveling Expense	568.30				
Warehouse Expense	329.70				
Delivery Expense	402.79	2085	94	3229	70
Net Profit from Operations				1765	33
Other Income:					
Interest on Notes and Accounts Receivable		101	73		
Branch Store, Schedule 2,		1444	96		
Building Expense and Revenue		55	00		
Profit on Sale of Stock		85	00		
Adjustments of Errors in Previous Period		1	65	1688	34
Gross Income				3453	67
Deductions from Income:					
Interest on Notes and Accounts Payable		138	48		
Loss on Doubtful Accounts		109	98	248	46
Net Income Carried to Surplus				3205	21

Illustration No. 113, Profit and Loss Statement, Corporation Set.

EXPLANATION. This statement is prepared from the nominal accounts in the Trial Balance in Illustration No. 111, and inventory of merchandise on hand. Those accounts omitted from this Trial Balance are in Illustration No. 108. A comparative statement of the returns from sales and cost of sales with those of previous periods, and an analysis of the various operating accounts may accompany the Profit and Loss statement. If so, they are designated as schedules (§ 281, ¶ 1). The arrangement of the statement and the terms used in connection with it conform to those given in standard authorities on accounting.

August 31, 191...

	Inventory	31261	78		
	Sales	20680	31		
	Purchases Discount	568	09		
	Profit and Loss			52510	18
	Profit and Loss	47515	15		
	Inventory			14606	05
	Purchases			31668	20
	Freight In			954	32
	Sales Discount			166	47
	Sales Rebates and Allowances			120	11
	To close the trading accounts into the Profit and Loss account.				
	31				
	Interest	101	73		
	Branch Store	1444	96		
	Building Expense and Revenue	55			
	Profit on Sale of Stock	85			
	Adjustment of Errors in Previous Period	1	65		
	Profit and Loss			1688	34
	Profit and Loss	6683	32		
	General Administrative Expense			1143	76
	Salaries in Selling Department			567	39
	Freight Out			43	85
	Advertising			173	91
	Traveling Expense			568	30
	Warehouse Expense			329	70
	Delivery Expense			402	79
	Interest			138	48
	Loss on Doubtful Accounts			109	98
	Surplus			3205	21
	To close the profit and loss accounts into Profit and Loss, and to close this account into Surplus account.				

Illustration No. 114, Journal Entries Required to Close the Ledger.

EXPLANATION. This illustration shows the entries to close the trading, and profit and loss accounts in Illustration No. 113 into the Profit and Loss account, and to close this account into the Surplus account. When the first entry is posted, the gross profit on sales is entered on the debit side of the Profit and Loss account, the account ruled and footed and the gross profit on sales carried down on the credit side. When the second entry has been posted, the Profit and Loss account will balance and it is ruled with single and double red lines and footed with black ink.

August 31, 191...

	Branch Store	9127	65		
	Branch Store Inventory			9127	65
	To close the Branch Store Inventory account.				
	31				
	Interest	14	93		
	Building Expense and Revenue	27	50		
	Accrued Assets			42	43
	To close the Accrued Assets accounts.				

Illustration No. 114a, Journal Entries After the Ledger is Closed.

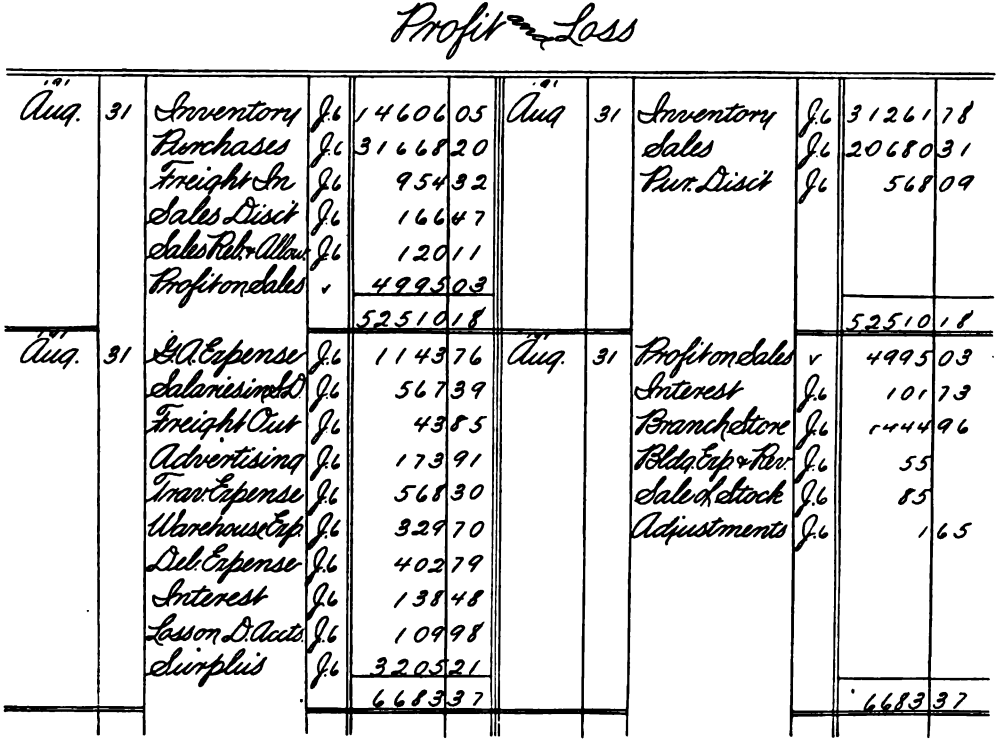
(*Concluded on page 219.*)

(*Continued from page 218.*)

31		
Accrued Liabilities	835 86	
Freight In		340 29
Gen'l Admr. Expense		150
Branch Store		135 42
Traveling Expense		87 65
Delivery Expense		122 50
To close the Accrued Liabilities account.		
31		
General Admr. Expense	82 65	
Advertising	119 65	
Warehouse Expense	63 75	
Deferred Charges to Operations		266 05
To close the Deferred Charges to Operations.		

Illustration No. 114a, Journal Entries After the Ledger is Closed.

EXPLANATION. This illustration shows the entries required after the ledger is closed by the posting of the entries in Illustration No. 114. In this entry, the Branch Store Inventory account is transferred to the Branch Store account; the accrued assets, to the proper service accounts; the deferred charges to operations, to the proper operating accounts, and the accrued liabilities, to the proper service accounts.



Profit and Loss

191						191					
Aug.	31	Inventory	J.6	14606	05	Aug	31	Inventory	J.6	31261	78
		Purchases	J.6	31668	20			Sales	J.6	20680	31
		Freight In	J.6	954	32			Pur. Disct	J.6	568	09
		Sales Disct	J.6	166	47						
		Sales Ret. & Allow.	J.6	120	11						
		Profit on Sales	✓	4995	03						
				52510	18					52510	18
191						191					
Aug.	31	G. A. Expense	J.6	1143	76	Aug.	31	Profit on Sales	✓	4995	03
		Salaries in S.D.	J.6	567	39			Interest	J.6	101	73
		Freight Out	J.6	43	85			Branch Store	J.6	1444	96
		Advertising	J.6	173	91			Bldg. Exp. & Rev.	J.6	55	
		Trav. Expense	J.6	568	30			Sale of Stock	J.6	85	
		Warehouse Exp.	J.6	329	70			Adjustments	J.6	1	65
		Del. Expense	J.6	402	79						
		Interest	J.6	138	48						
		Loss on D. Accts.	J.6	109	98						
		Surplus	J.6	3205	21						
				6683	37					6683	37

Illustration No. 115, Profit and Loss Account Constructed from Accounts in Illustration No. 113.

EXPLANATION. This illustration shows the Profit and Loss account after the entries in Illustration No. 114 have been posted. If desired, the amounts affected by the first entry may be posted to a special Trading account, but for statistical purposes, it is better to post them direct to the Profit and Loss account. The gross profit on sales is entered on the debit side, the trading section ruled with single and double red lines, footed with black ink, and the balance carried down on the credit side below the ruling.

QUESTIONS.

1. Why is scientific accounting important? (§ 219.)
2. Define a corporation. (§ 220.)
3. What is the difference between a partnership and a corporation? (§ 220, ¶ 1.)
4. What is the charter? (§ 226.)
5. Distinguish between the Capital Stock and Capital of a corporation. (§§ 227 and 228.)
6. What is the evidence of ownership in a corporation? (§ 229.)
7. Distinguish between common, preferred, and treasury stock. (§§ 231, 232 and 233.)
8. Distinguish between a dividend and an assessment. (§§ 235 and 236.)
9. Distinguish between surplus, bond, and sinking fund. (§§ 237-239.)
10. What entry is required when a partnership business is incorporated? (§ 240.)
11. Name the accounts peculiar to a corporation. (§ 241.)
12. Define a controlling account. (§ 247.)
13. Distinguish between Purchases Ledger account and Sales Ledger account. (§§ 248 and 249.)
14. What does the Good Will account show on the Balance Sheet? (§ 250.)
15. Give an example of the warehouse expense (a) as a purchase cost, and (b), as a sales cost. (§ 252.)
16. Distinguish between freight in and freight out. (§ 257.)
17. State the object of a Branch Store account, the method of handling it, and how it is shown on the Profit and Loss statement. (§ 260.)
18. State the object of an agency account and what it shows on the Balance Sheet. (§ 263.)
19. Describe the method of filling an order after it has been received. (§ 267.)
20. What is the object of the petty cash book? How is it proved? (§ 270.)
21. Describe the notes receivable book when used as a book of original entry with special columns. (§ 271.)
22. State one advantage in using separate ledgers for general accounts, creditors, and customers. (§§ 274-276.)
23. What is the purpose of an exhibit in connection with the statement of the business? (§ 281.)
24. Distinguish between a schedule and an analytical statement. (§ 281, ¶¶ 1 and 2.)
25. State the general arrangement of the Balance Sheet and Profit and Loss statement for a corporation. (§§ 283 and 284.)

CORPORATION BOOKKEEPING AND ACCOUNTING (Continued).

SEPTEMBER.

§ 285. **Introduction.** This is a continuation of the July and August business. The new features introduced are the fundamental accounts used in a manufacturing business, and the cash journal.

MANUFACTURING.

§ 286. **A Manufacturer** produces the merchandise which he sells; a merchant buys and sells merchandise already manufactured. The merchant ascertains the cost of the goods he sells from the invoice, the freight, and the drayage costs. The manufacturer can not use this method in ascertaining the cost of the goods he sells because of the work required in manufacturing the merchandise. This cost includes material, labor and manufacturing expense. Material is the article or articles used in manufacturing the merchandise; it consists of paper and ink in the manufacture of a book; cloth, buttons, etc., in the manufacture of clothing; sugar, glucose, coloring, etc., in the manufacture of candy, etc. Labor is the wages paid employees in the manufacturing department; it includes those who are actually engaged in manufacturing, and not those who oversee the work. Manufacturing expense is the incidental expenses in the manufacturing department; it includes the salary of the superintendent and foremen, rent, heat, light, power, etc.

Where the operations are extensive a cost accounting system is necessary to distribute the manufacturing cost properly. Where the operations are limited to a small factory or a department, the cost of manufacturing may be represented by one account termed Manufacturing or Manufacturing Department, or by four accounts—Labor, Raw Material, Manufacturing Expense and Manufacturing Department Sales. In addition to the account or accounts mentioned, an account is kept with the property purchased for the equipment in the factory or manufacturing department. The following discussion refers to those accounts that would be kept with a manufacturing department which is a part of the general business. A more thorough discussion of manufacturing accounts is given in the succeeding set.

MACHINERY AND EQUIPMENT ACCOUNT.

§ 287. **The Object of this Account,** as used in this set, is to show the cost of property purchased for use in the manufacturing department. This includes machinery, motors, machine pulleys, belts, tables, shelving, chairs, etc.

Debit Machinery & Equipment Account:

¶ 1. For the cost price of property, used in the manufacturing department on hand at the beginning of the business.

¶ 2. For the cost price of property purchased for use in the manufacturing department.

Credit Machinery & Equipment Acct.

¶ 3. For the cost price of property sold, the value of which was charged to this account.

¶ 4. For the cost price of articles replaced, destroyed or discarded. (At the same time debit the Reserve for Depreciation account.)

¶ 5. *The Balance of this Account* shows the cost price of property on hand in the manufacturing department. It is shown as a fixed asset on the Balance Sheet; the reserve for depreciation is deducted to show the present value.

¶ 6. *To Close the Machinery and Equipment Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the new page, are entered on the credit side, and the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entrv, it is written with black ink.

RESERVE FOR DEPRECIATION OF MACHINERY AND EQUIPMENT ACCOUNT.

§ 288. **The Object of this Account** is to show the amount of reserve created to take care of the decrease in value of property purchased for use in the manufacturing department. It is of the same nature as the Reserve for Depreciation of Office Equipment account (§ 131, ¶1, and § 133).

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of machinery and equipment discarded.

¶ 2. With the difference between the cost, and selling or exchange price of machinery and equipment sold or exchanged.

¶ 3. With the amount of depreciation on machinery and equipment which has been stolen or unexpectedly destroyed. (See note under § 133, ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management at the time of purchase.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation on Machinery and Equipment. It is a valuation account and shown on the Balance Sheet as a deduction from the cost of machinery and equipment.

¶ 6. *To Close the Reserve for Depreciation of Machinery and Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by journal entry, it is written with black ink.

MANUFACTURING DEPARTMENT ACCOUNT.

§ 289. **The Object of this Account,** as kept in this set, is to show the cost of manufacturing candy, and the returns from sales of candy. Unless special columns are provided in the cash journal or each book of original entry for raw material, labor, manufacturing expense and manufacturing department (candy) sales, it would be advisable to keep separate accounts with each of these, rather than one account with the manufacturing department.

Debit the Manufacturing Dept. Acct.

¶ 1. For the cost of raw material (sugar, glucose, chocolate, colorings, cartons, buckets, barrels, etc.), on hand at the beginning of the business or fiscal period.

¶ 2. For the cost of raw material purchased for use in manufacturing candy.

¶ 3. For all freight or express paid on raw material.

¶ 4. For amounts paid for labor in the manufacturing (candy) department.

¶ 5. For the salary of the superintendent, which is a part of the manufacturing expense.

¶ 6. For amounts paid for rent, license, telephone, insurance, and other expenses of the manufacturing (candy) department, which is a part of the manufacturing expense.

¶ 7. For the depreciation on plant and machinery, which is also a part of the manufacturing expense.

¶ 8. For discount deducted by customers for prompt payment of bills for merchandise sold from this department. (See ¶ 10.)

Credit the Manufacturing Dept. Acct.

¶ 9. For the total credit and cash sales as shown by the sales column in the cash journal at the end of the month. If a cash journal is not kept, the credit sales would be posted from the sales recapitulation sheet, and the cash sales posted from the general or special column in the cash book.

¶ 10. For all discounts deducted for prompt payment on property purchased for use in the manufacturing (candy) department. (If the exact amount can not be determined at the time the remittance is sent, an adjusting entry may be made at the end of each month.)

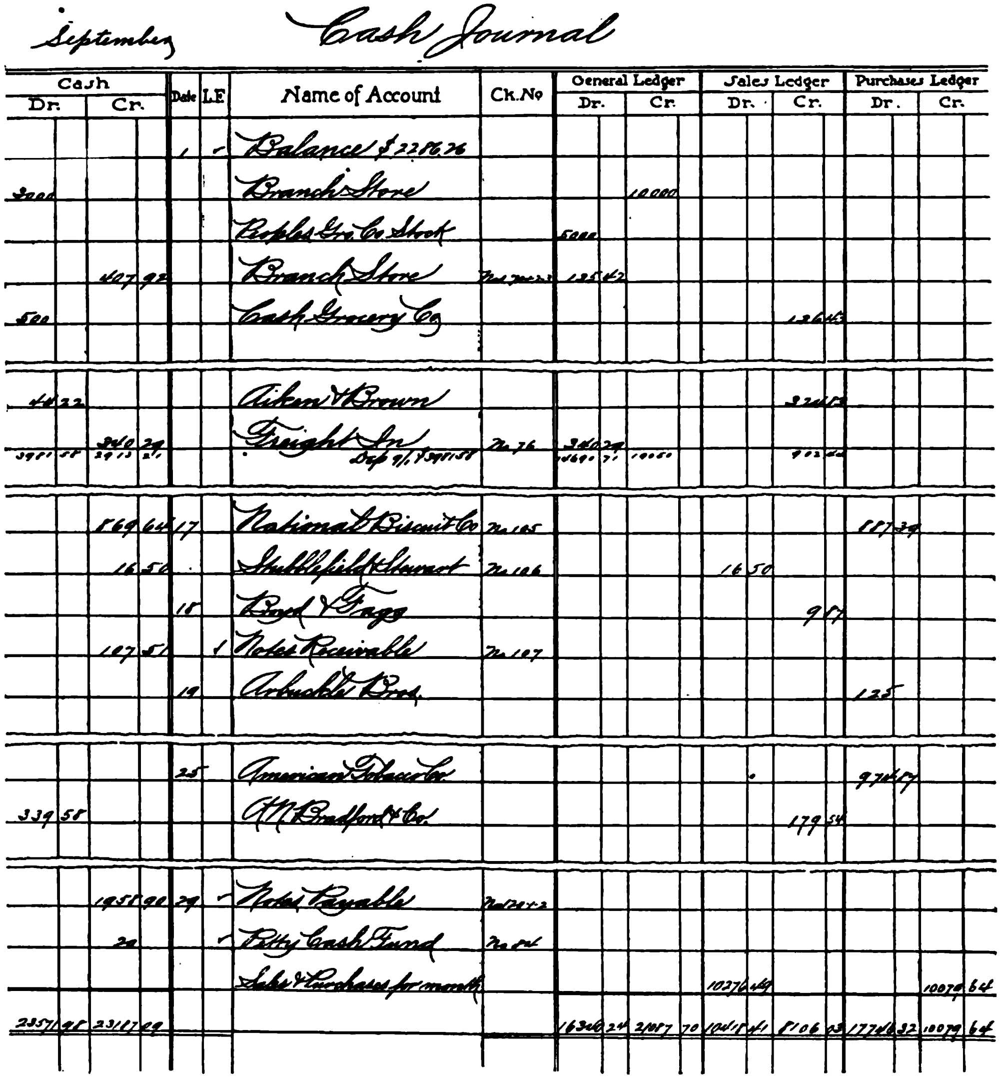
¶ 11. For the value of raw material or manufactured goods on hand at the end of the fiscal period. (At the same time debit the Manufacturing [candy] Department Inventory.)

¶ 12. *The Difference Between the Two Sides of this Account*, after the entry for the property on hand at the close of the fiscal period has been made, shows the net profit or net loss from the sale of the manufactured product (candy). The gross sales; deductions on account of returns, rebates, allowances, or discounts; the inventory of materials and finished product on hand at the beginning of the period; the cost of labor, materials and manufacturing expense for the period; the cost of materials and finished product on hand at the close of the period; and the gross profit on sales of manufactured products are shown separately on the Profit and Loss statement.

¶ 13. *To Close the Manufacturing (Candy) Department Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and it is ruled with single and double red lines and footed with black ink.

§ 290. Cash Journal. This is a book of original entry in which all transactions are recorded. It is quite popular with bookkeepers because of the time saved in recording transactions and posting.

Accountants criticise the book, not so much because of its use, as because of its misuse by practicing bookkeepers. The reason for this criticism is the difficulty in auditing, due to the careless method of entering transactions. If the bookkeeper will follow instructions given in ¶¶1-18, record only one transaction on a line, and give full information in the remarks column (¶ 18), his work may be audited without this criticism. When used, it is usually the only book from which transactions are posted to the general ledger, and sometimes the only book from



September Cash Journal

Cash		Date	L.F.	Name of Account	Ck. No.	General Ledger		Sales Ledger		Purchases Ledger	
Dr.	Cr.					Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
		1	✓	Balance $2286.76							
3000				Branch Store			10000				
				Peoples Gro. Co. Stock		5000					
	407 92			Branch Store	[illegible]	135 62					
500				Cash Grocery Co.					126 43		
44 22				Aiken & Brown					326 13		
	340 29			Freight In	No. 76	340 29					
3981 58	2913 21			Dep 9/1 $3981.58		1690 71	10050		902 [illegible]		
	569 64	17		National Biscuit Co.	No. 105					587 39	
	16 50			Stubblefield & Stewart	No. 106			16 50			
		18		Boyd & Fogg					9 87		
	107 51		1	Notes Receivable	No. 107						
		19		Arbuckle Bros.						125	
		25		American Tobacco Co.						974 17	
339 58				A. M. Bradford & Co.					179 54		
	1958 90	29	✓	Notes Payable	[illegible]						
	20		✓	Petty Cash Fund	[illegible]						
				Sales & Purchases for month				10276 49			10079 64
23571 98	23117 29					16340 24	21087 70	10418 41	8106 73	17746 32	10079 64

Illustration No. 116, Cash Journal, Corporation Set.

which transactions are posted to any ledger. Other books are kept and the totals only entered in this; thus the credit sales are entered in the sales book, credit purchases in the purchases book,

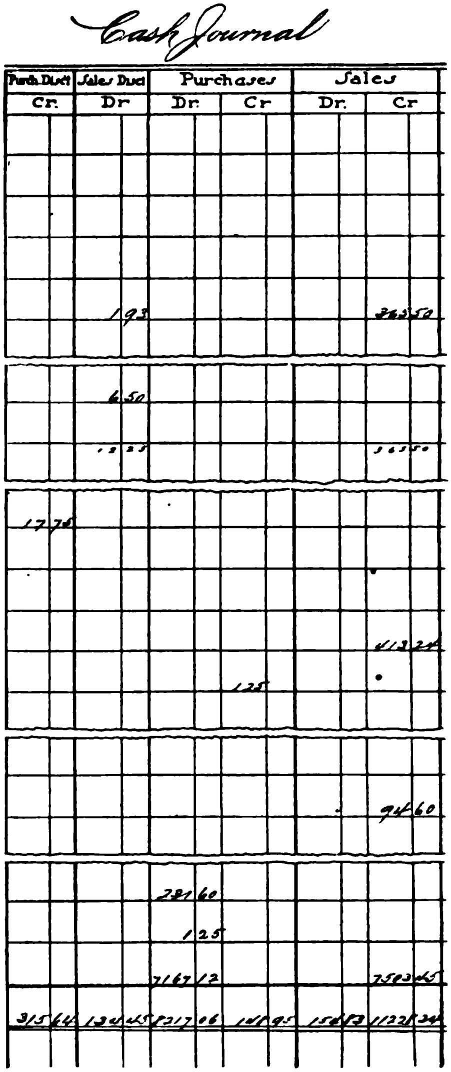
Cash Journal

Baking Powder				Candy Department							
Dr.		Cr.		Labor Dr		Raw Mat Dr		Mfg Exp Dr		Sales Cr.	
						3000					
		40								229	37
		20								44	
				167	75	119	55	25			
		68				2477	52			2105	04
1382		1352		689	95	5307	72	231	50	3746	45

Illustration No. 116 (Continued).

TEAR OFF ON THIS LINE.

and, if desired, cash received from customers is entered in a special cash book. Once each day, week, or month, the totals of these books are transferred to the cash journal. The time of transferring these



Cash Journal

Purch. Disct	Sales Disct	Purchases		Sales	
Cr.	Dr	Dr.	Cr	Dr.	Cr
	1 93				363 50
	6 50				
	13 25				363 50
17 75					
					413 24
			1 25		
					94 60
		281 60			
		1 25			
		7167 12			7503 45
315 64	134 45	8217 06	1018 95	1568 83	11221 34

Illustration No. 116 (Continued).

totals will depend largely upon the nature of the business and the instructions of the management. All the transactions are not entered in this book at the time they occur because the data requires too much space and permits only one person to work on the books. If special books are kept with those transactions which are the most numerous, different persons can work on these, and the totals may

Cash Journal

Notes Rec		Notes Pay		Interest		GA Exp	Salaries	Adv'ing	Trav Exp	Frt Out	Del Exp	Ware Exp	Explanation
Dr.	Cr.	Dr.	Cr	Dr	Cr.	Dr	Dr.	Dr	Dr	Dr	Dr.	Dr	
2000													Sold branch store Rec'd cash $3000.00
													Note 2000 total $5000.00
						150					122 50		Accrued Liabilities
													Currency $50.00
273 65				4 10	3 64								Ck & note in full a/c
317 83				4 10	3 50	150					122 50		Freight bill 8/15 - 8/31
													Protested check
										9 87			Credit for freight
100					9 87								N. R.B. No. 23
													10 cases Coffee returned
			974 67										
					1 44								In full of acct and a cash sale
		1000				217 50	115				42 50	45	
						11 50		4 50				3 75	
5251 61	3124 73	3603 67	1234 50	176 06	56 60	627 65	220	30	324 51	78 48	258 25	115	

Illustration No. 116 (Concluded).

be given to the general bookkeeper or person who makes the records in the cash journal. The information in ¶¶ 1–22 relates to the columns in the illustration.

¶ 1. *Cash.* Two columns are provided, one for receipts and one for payments. All cash received is entered in the debit column and cash paid, in the credit column, except amounts paid from the petty cash fund, which are entered in the petty cash book. The difference between the two columns provided for cash should at all times equal the amount of the cash balance. The cash columns are placed to the left, because no amounts are posted from them unless a Cash account is kept in the ledger, and then the totals only will be posted at the end of the month.

¶ 2. *Name of the Account Column.* Here is written the name of the account to be debited or credited. The name of the account debited or credited should be the same as the name of the column in which the amount is entered, unless it is a general ledger account, in which case it would be the name of the account affected. If an amount affects two or more columns and none of these are to be posted, the name of the first column only is written. The date and folio columns are placed at the left of the name of the account, the same as in a regular cash book.

¶ 3. *Check Number.* This column is for the number of the check. If two or more checks are written, and only one account in the General Ledger, Purchases Ledger or Sales Ledger columns is affected, the checks may all be entered on one line, but it is better to enter only one transaction on a line. If a check requires more than one line, it is not necessary to repeat the number, as the check number first written applies to all entries until the next check number is entered.

¶ 4. *General Ledger.* Two money columns are provided; one for debits, and the other for credits. When a transaction affects an account that is not represented by one of the special columns, it is necessary to enter it in the General Ledger column, because it will have to be posted to that ledger.

¶ 5. *Sales Ledger.* Two money columns are provided for this account; one for debits, and the other for credits. When cash is received from a customer in full or on account, the amount is entered in the Cash Dr. column and the Sales Ledger Cr. column. If discount is allowed, the amount with which the customer's account is credited, which includes the cash and discount, must be entered in the Sales Ledger Cr. column. If a charge is made to a customer, the amount is entered in the Sales Ledger Dr. column. The amounts entered in the Sales Ledger Dr. column are the totals from the sales book and any other entry that affects the debit side of a customer's account.

¶ 6. *Purchases Ledger.* Two money columns are provided for this account; one for debits, and the other for credits. When a creditor is paid, his name is written in the Name of the Account column, and the amount with which he is charged is entered in the Purchases Ledger Dr. column. The amount of cash paid him is entered in the Cash Cr. column, and the number of the check in the Check No. column. The amounts entered in the Purchases Ledger Cr. column are the totals from the purchases book, and any other transactions that affect the credit side of a creditor's account.

¶ 7. *Purchases Discount Cr.* Only one money column is provided for this, because there are very few transactions in which the Purchases Discount account is debited. When these occur, the name of the account is written at the left and the amount entered in the General Ledger Dr. column. When we pay a creditor for an invoice which is subject to discount, the amount of cash paid him is entered in the Cash Cr. column, the discount in the Purchases Discount Cr. column, and the amount with which he is charged is entered in the Purchases Ledger Dr. column.

¶ 8. *Sales Discount Dr.* Only one column is provided for this, because there are very few transactions in which the Sales Discount account is credited. In case such a transaction does occur, the credits are entered in the General Ledger column. If the amount received from a customer is subject to discount, the full amount with which he is credited is entered in the Sales Ledger Cr. column, the cash received is entered in the Cash Dr. column, and the amount of the discount in the Sales Discount Dr. column.

¶ 9. *Purchases.* Two money columns are provided for this account; one for debits, and the other for credits. All cash purchases, and the totals from the purchases book, which represents credit purchases, are entered in the Purchases Dr. column. The value of merchandise returned by us, and rebates allowed us for damaged goods, shortages, etc., are entered in the Purchases Cr. column.

¶ 10. *Sales.* Two money columns are provided for this account; one for debits, and the other for credits. The value of goods returned by customers for credit is entered in the debit column, and the returns from sales, in the credit column. Amounts allowed for damaged goods are charged to the Sales Rebates and Allowances account in the General Ledger column.

¶ 11. *Baking Powder.* Two money columns are provided for this account; one for debits, and one for credits. It is debited for all amounts paid to the baking powder company (Standard Mfg. Co.), and for the value of all baking powders returned by customers. It is credited for all sales of baking powders, either for cash or on account.

¶ 12. *Candy Department.* Four columns are provided for this account; three for the debits, and one for the credits. Amounts paid for Labor are entered in the first; for Raw Material in the second; and for Manufacturing Expense in the third; amounts received from the Sales of candy are entered in the fourth.

¶ 13. *Notes Receivable.* Two money columns are provided for this account; one for debits, and the other for credits. When a note or accepted draft is received, the amount is entered in the debit column. When a note or acceptance is paid, the amount is entered in the credit column.

¶ 14. *Notes Payable.* Two money columns are provided for this account; one for debits, and the other for credits. When a note is signed or a draft accepted by us, the amount is entered in the credit column. When a note or accepted draft is paid by us, the amount is entered in the debit column.

¶ 15. *Interest.* Two money columns are provided for this account; one for debits, and the other for credits. When a transaction affects the Interest account, the amount is entered in the debit or credit column, according to the nature of the transaction.

¶ 16. *General Administrative Expense.* Only one column is provided for this, because there are very few transactions in which this account is credited. If such do occur, the name of the account would be written at the left, and the amount entered in the General Ledger Cr. column. All amounts paid for general administrative expense are entered in this one column.

¶ 17. *Selling Expense Dr.* Six columns are provided for this, each of which is debited. Amounts paid for Salaries in the selling department are entered in the first; for Advertising in the second; for Traveling Expense in the third; for Freight Out in the fourth; for Delivery Expense in the fifth; and for Warehouse Expense in the sixth.

¶ 18. *Explanation Column.* Each transaction must be fully explained that the auditor may audit the entries. This information is given in the column at the extreme right. If the explanation is explicit and indicates the number of lines required for a transaction, the auditor will have no trouble checking the entries. Under no circumstances should two or more transactions be entered on one line.

¶ 19. *In General.* If a transaction affects cash, the amount received or paid is entered in the Cash Dr. or Cash Cr. column at the left, and in one or more of the many columns at the right. The total of the amounts entered in the debit columns must always equal the total of the amounts entered in the credit columns.

If it is necessary to enter an amount in the General Ledger, Sales Ledger or Purchases Ledger column, the name of the account debited or credited is written in the Name of the Account column. If the transaction does not require entries in any of these ledger columns, but is entered in one or more of the special columns to the right of them, the name of the first column is written in the Name of the Account column and a check mark placed in the L. F. column to indicate that it is not to be posted. If a transaction does not affect cash, the name of the account is written in the Name of the Account column, as explained, and the debits and credits are entered in the proper columns at the right. Use as few lines as possible in recording a transaction. Usually only one line is sufficient. If it is a complicated transaction, a brief description can be given in the Explanation column at the extreme right.

¶ 20. *To Prove Cash with the Cash Journal.* The difference between the Cash Dr., plus the cash on hand at the beginning of the month, and Cash Cr. columns is the cash balance. This can not be accepted as correct unless all the columns prove; hence, each time the bookkeeper proves cash, he foots all the columns and add the debits and credits; the total debits should be the same as the total credits. If the work proves, the difference may be accepted as the cash balance. This balance should be verified by adding the cash on hand to the amount in the bank.

¶ 21. *Method of Keeping the Bank Account.* Two special columns may be provided for the account with the bank, but these are not necessary when all cash received is deposited, and all payments made by check. When this plan is followed, the total cash receipts would equal the total cash deposited, and the total cash paid would equal the total of all checks written. A carbon copy of each deposit should be retained so that the auditor may check the deposits with the entries in the Cash Dr. column. The balance of the cash in the bank as shown by the monthly statement from the bank is the cash balance as shown by the difference between the Cash Dr., plus the cash on hand at the beginning of the month, and Cash Cr. columns, provided all checks have been paid by the bank. If any checks are unpaid, the total of these deducted from the balance shown on the monthly statement will be the same as the cash balance.

The bookkeeper should always prove cash before making a deposit. All the columns in the cash journal should be footed and proved in connection with the cash proof. The cash balance and the amount of the deposit is entered in pencil figures as shown in Illustration No. 116.

¶ 22. *To Post from the Cash Journal.* Each amount entered in the General Ledger Dr. column is posted in the general ledger, to the debit side of the account written on the same line with it; each amount written in the General Ledger Cr. column is posted in the general ledger, to the credit side of the account written on the same line with it. Each amount written in the Sales Ledger Dr. column is posted in the sales ledger, to the debit side of the account written on the same line with it; each amount entered in the Sales Ledger Cr. column is posted in the sales ledger, to the credit side of the account written on the same line with it. Each amount entered in the Purchases Ledger Dr. column is posted in the purchases ledger, to the debit side of the account written on the same line with it; each amount written in the Purchases Ledger Cr. column is posted in the purchases ledger, to the credit side of the account written on the same line with it. The page of the account in the ledger is placed in the L. F. column at the left of the name of the account. No amounts are posted from the various columns to the right of these until the end of the month.

At the end of the month, the Sales Ledger account in the general ledger is debited for the total of the Sales Ledger Dr. column, and credited for the total of the Sales Ledger Cr. column. The Purchases Ledger account in the general ledger is debited for the total of the Purchases Ledger Dr. column, and credited for the total of the Purchases Ledger Cr. column. The totals of all other columns are posted to the account in the general ledger, which corresponds with the name of the column, except Selling Expense and Candy Department. The total of each column under Selling Expense is posted to the debit side of that account, each amount being posted separately, and the name of the column is written in the explanation column. The Candy department is debited with the total of each of the three debit columns, and credited with the total of the one credit column, each amount being entered separately, and the name of the account is written in the explanation column. The totals of the Cash columns at the left are not posted unless a Cash account is kept in the general ledger; if so, this account is debited with the total of the Cash Dr. column and credited with the total of the Cash Cr. column.

NOTE. Some bookkeepers do not post the totals of the various columns until the end of the year, so as to show a complete history of the business in this one book. If this is done, the total of the balances in the sales ledger at the end of the month must equal the difference between the Sales Ledger Dr. and Sales Ledger Cr. columns; and the total balances of the purchases ledger must equal the difference between the totals of the Purchases Ledger Dr. and Purchases Ledger Cr. columns. It is not the best practice to use this method, as accounts should be kept in the general ledger for all of the accounts represented by the various columns, and the Trial Balance made from the general ledger.

Exercise No. 81, Cash Journal.

Rule a cash journal similar to Illustration No. 116, with columns for the following accounts: Cash, Dr. and Cr.; General Ledger, Dr. and Cr.; Sales Ledger, Dr. and Cr.; Sales Discount, Dr.; Purchases, Dr. and Cr.; Sales, Dr. and Cr.; Interest, Dr. and Cr.; General Administrative Expense, Dr.; Selling Expense, three debit columns as follows: Salaries, Delivery Expense, and Warehouse Expense. Record the following transactions in this book according to instructions given in § 290, ¶¶ 1–22.

July 1st. Balance on hand, $8,654.95; 1st, gave Robertson Bros. a check for $316.55 in payment for invoice of this date; 2d, received a sixty-day note for $376.55 from A. R. David on account, less $3.65 interest to maturity (discount on the note); 2d, gave A. H. Moses a check for $83.33 in payment of July rent; 2d, gave the Brown Manufacturing Co. a check for $416.80, in payment for invoice of this date; 2d, received from J. M. Waterson & Co. a check for $216.55, in full of account, less $2.15 discount (the total of the check and discount is entered in the Sales Ledger Cr. column); 3d, received from Mason Bros. a check for $327.40, in payment for note, $325.00, and interest on the same; 3d, gave Peter Heister a check for $165.50,—$150.00 to pay for shelving, and $15.50 for repairs in the warehouse; 5th, received checks as follows: W. H. Massey for $192.65, in payment for a cash sale; R. J. Robey for $212.50, in payment for note, $210.00, and interest, $2.50; Johnson Bros. $300.00, to apply on account, which is subject to 3% discount; 6th, credit sales for the week, per sales book, $1,865.42; 6th, Adams Bros. have returned two barrels of flour at $5.50 per barrel, and a credit bill has been sent for the amount; 6th, withdrew from the bank $275.00, for pay roll, as follows: officers and bookkeepers' salaries, $125.00 (G. A. Exp.); clerks in the selling department, $75.00 (S. E. Salaries); shipping and receiving clerks, $50.00 (S. E. Warehouse Expense); drivers, $25.00 (S. E. Delivery Expense).

Foot each column and prove cash, balance, $8,646.87. The total of the debit columns must equal the total of the credit columns.

July 8th, received $25.00 from W. H. James, in payment for a secondhand desk; 8th, gave C. H. Bradford credit for a note of $465.25, and interest on the same to maturity, $5.62, and allowed him a 3% discount on the amount of the payment. (Mr. Bradford gets credit for the face of the note, the interest, and the discount on the total of the two in the Sales Ledger column.) 9th, received checks as

(*Concluded on page 232.*)

(*Exercise No. 81, Concluded.*)

follows: C. L. Savage, $162.50 on account; D. L. Taylor, $251.37, in payment for a cash sale; 9th, gave Borches & Co. a check for $927.65, in payment for invoice of this date; 10th, returned to Robertson Bros. four barrels of granulated sugar, 1,362 pounds, purchased on the 1st, and received their check at $5.25 per hundred; 11th, gave the Underwood Typewriter Co. a check for $100.00, in payment for a new typewriter; 12th, received checks as follows: R. A. Swaggarty, $211.56, in part payment of a bill subject to 3% discount; A. L. McDonald & Son, $215.65,—$195.65 in payment for a cash sale and $20.00 for a showcase; 12th, W. W. Woodruff returned two boxes of tobacco, 82½ pounds, at 42c, and a credit bill has been sent for the amount; 13th, paid $20.00 for stamps (G. A. Exp.); 13th, withdrew sufficient funds from the bank for the pay roll of the week (see entry on the 6th for the amount and columns affected); credit sales for the week, per sales book, $1,427.62.

Foot all the columns and prove cash, balance, $8,261.81. The total of all the debit columns should equal the total of all the credit columns.

QUESTIONS.

1. Distinguish between a merchant and a manufacturer. (§ 286.)
2. What are the three principal elements of cost in manufacturing?
3. What is the object of the Machinery and Equipment account? (§ 287.)
4. What is the object of the Reserve for Depreciation of Machinery and Equipment account? (§ 288.)
5. If a machine is exchanged for $100.00 less than the cost value, what account is debited with the $100.00?
6. What is the object of the Manufacturing Department account? (§ 289.)
7. For what is it debited?
8. For what is it credited?
9. What does the balance show before the entry is made for the property on hand at the close of the fiscal period? (§ 289.)
10. What does the difference show after this entry has been made?
11. What is the object of the cash journal? (§ 290.)
12. Why are the two columns for cash placed at the extreme left?
13. Why are the General Ledger, Sales Ledger and Purchases Ledger columns arranged near the name of the account?
14. Why is it not necessary to post each amount that is entered in the special columns? (§ 290.)
15. How is cash proved when the cash journal is used?
16. How is the bank account kept? (§ 290.)
17. Why is it not necessary to have a special column for the bank?
18. Why is it necessary to explain each transaction in the explanation column?
19. Why is it advisable not to enter more than one transaction on a line? (§ 290.)
20. Why is one page of the cash journal made shorter than the other?
21. State the journal entry required to close the trading accounts section on the Profit and Loss statement.
22. State the journal entry required to close the Profit and Loss accounts section on the Profit and Loss statement.
23. Why is it not necessary to close the accounts on the Balance Sheet?
24. Why is the difference between the assets and liabilities the same as the sum of the net profit added to the investment?
25. Why is it advisable to close the Accrued Assets, Deferred Charges to Operations and Accrued Liabilities accounts after the ledger is closed?

Part Four—Cost Accounting

PRINTING BUSINESS, BEN FRANKLIN PRESS, INCORPORATED.

OCTOBER AND NOVEMBER.

§ 291. **Introduction.** The object of this set is to present the correct principles of cost accounting and the best practice in applying them. Scientific accounting is a necessity and not a theory. Accountants have demonstrated this fact in all lines of business. The manufacturer has felt the effects of this more than any other business man, because as a rule he must submit a price on the article to be manufactured before the contract can be obtained. If he is to make profit on the contract, he must know the cost of raw material, labor and manufacturing expense required to complete it. This information can be obtained only through a correct cost system.

The Transactions to be Recorded are separate from the discussion of the principles (§§ 293-375) and are represented by incoming vouchers, which are reproduced business forms, used in the line of business represented.

¶ 1. *Reference.* The student who is thoroughly interested in the subject of costing and wishes to know more of it, is advised to write the Journal of Accountancy, 20 Vesey Street, New York City, for a list of books relating to cost accounting.

§ 292. **The Outline** on page 234 gives a summary of cost accounting explained in §§ 291–375.

§ 293. **A Mercantile Business,** usually termed Trading Business, is one in which finished (marketable) goods are bought and sold. The cost of merchandise purchased consists of the invoice cost, freight cost, and other costs necessary in preparing the goods for sale. This cost is ascertained from the Purchases, Freight In, Drayage and Warehouse Expense accounts.

§ 294. **A Manufacturing Business** is one that buys raw materials, semi-raw materials, parts, factory supplies, etc., and with a properly equipped factory, and by the employment of skilled and unskilled labor, converts these into the finished (marketable) goods which it sells. Any business in which sufficient labor is required to increase materially the cost of the product purchased, may be considered a Manufacturing Business, even though the form of the materials may not be changed.

The principal accounting difference between a Mercantile or Trading Business, and a Manufacturing Business is in the method of ascertaining the cost of goods sold. The same method may be used in either business for conducting the office, marketing the goods, making collections, etc.

§ 295. **Cost Accounting** is the method or process of determining, through the general bookkeeping system, the actual cost of each job, or the cost per unit (pound, gallon, bushel, yard, barrel, etc.), of each product manufactured and the cost of jobs or goods in process of manufacture at the close of the fiscal period. The best cost system is the one that permits these results to be shown at the time each particular job or process is completed. A cost system in which results will not prove is practically useless.

OUTLINE OF COST ACCOUNTING.

1. Introduction.

2. Kinds of Business..........
   1. Mercantile.
   2. Manufacturing.

3. Cost Accounting............
   1. Need of.
   2. Definition.
   3. Advantages.
   4. Important Features.

4. Methods of Costing........
   1. Production Order.
   2. Process.

5. Elements of Cost..........
   1. Raw Materials.
   2. Labor.
   3. Manufacturing Expense.

6. Raw Materials............
   1. Nature of.
   2. Factory Supplies.

7. Labor..
   1. Nonproductive.
   2. Productive.
      1. Method of Keeping Time.
      2. Application of Labor Costs.
         1. Order No. Estimate.
         2. Specific Order.
         3. Piece Work.
         4. Average Hour.
         5. List Percentage.
         6. Machine Hour Rate.

8. Manufacturing Expense
   - Methods of Distributing
     1. Labor Percentage Plan.
     2. Man Hour.
     3. List Percentage.
     4. Sold Hour.
     5. Machine Hour Rate.

9. Machine Hour Rate........
   1. Factor or Production Center.
   2. Installation Cost.
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      1. Method of Ascertaining.
         1. Past Experience.
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         1. Efficiency Hours.
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         1. With Labor Cost.
         2. Separate from Labor Cost.

The natural resources of the country have been developed until a large profit once made by their appropriation is no longer possible. Competition has become very keen as a result of the extensive organization of industry, and as a consequence the margin of profit has grown much smaller. Cost accounting is made necessary on account of these conditions and no manufacturing concern can afford to continue without a well-planned cost system.

§ 296. **The Advantages of a Cost System** are numerous, the following being the most important:

1st. It enables the management to know the cost of material, labor and manufacturing expense as well as the commercial cost (administrative and selling expense), and the reason for this cost.

2d. It permits reliable estimates to be prepared for work to be done for prospective jobs. This is important because the manufacturer is usually required to submit a price on the article desired before securing the contract. It also enables the management to know the time it will require to manufacture the article so that he can assure the prospective customer that the article will be delivered within a specified time.

3d. It permits the management to know the efficiency of the plant as a whole, the efficiency of each employee and of each machine. If a certain machine can not produce sufficient work to pay for the expense of operating it, it should be discarded for a better machine that can produce a profit. If one employee who receives the same wages per hour as another, requires two hours to do the same work that the other can do in one hour, he should be discharged, and a more efficient person employed in his place. If the business is to be a success and the cost of the product manufactured to compare favorably with that of competitors, the very highest efficiency must be obtained, hence, knowledge of the efficiency of the plant is one of the most important advantages of costing.

§ 297. **The Important Features of a Cost System.** There are two important features that must be a part of every cost system in order to obtain satisfactory results.

1st. The cost system must form a part of the general bookkeeping system. When conducted independent of the general books, it becomes merely a memorandum without any means of proving its correctness, and the results are not satisfactory.

2d. A perpetual going inventory must be maintained for all raw materials, semi-raw materials and manufactured parts purchased or manufactured. Each kind of property must be represented by an account in the materials ledger, and the results proved by a controlling account in the general ledger. Unless a perpetual going inventory is maintained, the profit can not be shown until a physical inventory is made, and it is not practical to take this more often than semiannually.

§ 298. **Methods of Costing.** There are two general methods in practice for ascertaining the cost of goods manufactured. One is known as the Production Order method, and the other the Process method.

§ 299. **Production Order Method.** With this method, an account is kept in the job cost ledger with each job or contract. This job or contract is given a number at the time it is entered, and this number is used to represent it until it is completed. If each job or contract is charged with all materials, labor, and the manufacturing expense that are required to complete it, the final results will show the cost of manufacturing. It is better to use a loose leaf ledger and keep the account with each job or contract on a separate sheet. When the job is completed and all the charges have been made, this sheet is removed from the current binder and filed in a permanent file for future reference. The total of the balances of unfinished jobs or contracts as shown by the cost sheets in the current

August 31, 191...

Inventory	31261	78		
Sales	20680	31		
Purchases Discount	568	09		
Profit and Loss			52510	18
Profit and Loss	47515	15		
Inventory			14606	05
Purchases			31668	20
Freight In			954	32
Sales Discount			166	47
Sales Rebates and Allowances			120	11
To close the trading accounts into the Profit and Loss account.				
31				
Interest	101	73		
Branch Store	1444	96		
Building Expense and Revenue	55			
Profit on Sale of Stock	85			
Adjustment of Errors in Previous Period	1	65		
Profit and Loss			1688	34
Profit and Loss	6683	32		
General Administrative Expense			1143	76
Salaries in Selling Department			567	39
Freight Out			43	85
Advertising			173	91
Traveling Expense			568	30
Warehouse Expense			329	70
Delivery Expense			402	79
Interest			138	48
Loss on Doubtful Accounts			109	98
Surplus			3205	21
To close the profit and loss accounts into Profit and Loss, and to close this account into Surplus account.				

Illustration No. 114, Journal Entries Required to Close the Ledger.

EXPLANATION. This illustration shows the entries to close the trading, and profit and loss accounts in Illustration No. 113 into the Profit and Loss account, and to close this account into the Surplus account. When the first entry is posted, the gross profit on sales is entered on the debit side of the Profit and Loss account, the account ruled and footed and the gross profit on sales carried down on the credit side. When the second entry has been posted, the Profit and Loss account will balance and it is ruled with single and double red lines and footed with black ink.

August 31, 191...

Branch Store	9127	65		
Branch Store Inventory			9127	65
To close the Branch Store Inventory account.				
31				
Interest	14	93		
Building Expense and Revenue	27	50		
Accrued Assets			42	43
To close the Accrued Assets accounts.				

Illustration No. 114a, Journal Entries After the Ledger is Closed.

(*Concluded on page 219.*)

(*Continued from page 218.*)

31				
Accrued Liabilities	835	86		
Freight In			340	29
Gen'l Admr. Expense			150	
Branch Store			135	42
Traveling Expense			87	65
Delivery Expense			122	50
To close the Accrued Liabilities account.				
31				
General Admr. Expense	82	65		
Advertising	119	65		
Warehouse Expense	63	75		
Deferred Charges to Operations			266	05
To close the Deferred Charges to Operations.				

Illustration No. 114a, Journal Entries After the Ledger is Closed.

EXPLANATION. This illustration shows the entries required after the ledger is closed by the posting of the entries in Illustration No. 114. In this entry, the Branch Store Inventory account is transferred to the Branch Store account; the accrued assets, to the proper service accounts; the deferred charges to operations, to the proper operating accounts, and the accrued liabilities, to the proper service accounts.

Profit and Loss

191						191					
Aug.	31	Inventory	J.6	14606	05	Aug	31	Inventory	J.6	31261	78
		Purchases	J.6	31668	20			Sales	J.6	20680	31
		Freight In	J.6	954	32			Pur. Disc't	J.6	568	09
		Sales Disc't	J.6	166	47						
		Sales Ret. & Allow.	J.6	120	11						
		Profit on Sales	✓	4995	03						
				52510	18					52510	18
191											
Aug.	31	G. A. Expense	J.6	1143	76	Aug.	31	Profit on Sales	✓	4995	03
		Salaries in S. D.	J.6	567	39			Interest	J.6	101	73
		Freight Out	J.6	43	85			Branch Store	J.6	1444	96
		Advertising	J.6	173	91			Bldg. Exp. & Rev.	J.6	55	
		Trav. Expense	J.6	568	30			Sale of Stock	J.6	85	
		Warehouse Exp.	J.6	329	70			Adjustments	J.6	1	65
		Del. Expense	J.6	402	79						
		Interest	J.6	138	48						
		Loss on D. Acc'ts.	J.6	109	98						
		Surplus	J.6	3205	21						
				6683	37					6683	37

Illustration No. 115, Profit and Loss Account Constructed from Accounts in Illustration No. 113.

EXPLANATION. This illustration shows the Profit and Loss account after the entries in Illustration No. 114 have been posted. If desired, the amounts affected by the first entry may be posted to a special Trading account, but for statistical purposes, it is better to post them direct to the Profit and Loss account. The gross profit on sales is entered on the debit side, the trading section ruled with single and double red lines, footed with black ink, and the balance carried down on the credit side below the ruling.

take greater care of the property of the business. This plan is not in general use, but is being used by some of the largest manufacturing businesses with very satisfactory results.

With reference to the method of distribution, labor is divided into two classes, *productive* and *nonproductive.*

§ **305. Productive Labor** refers to the labor that is charged direct to some particular job or process. It is sometimes known as "direct" or "chargeable" labor to distinguish it from "nonproductive", "indirect" or "nonchargeable labor".

§ **306. Nonproductive Labor** refers to the work of persons in the production department whose services are of such a general nature that they can not be charged to any particular job or process. This includes the salaries of superintendents, foremen, cost clerks, etc., and also the wages of those engaged in cleaning machines, trucking, cleaning the factory, operating the elevator, etc.

This division of labor does not mean that the services of each employe will be either productive or nonproductive, as a workman might perform both productive and nonproductive labor in the same day. Thus, a machinist is required to operate a machine for a certain number of hours on a particular job. After this is completed, the machine must be cleaned and placed in normal condition. The time given to the job is direct (chargeable) labor and is charged to the job; the time given to cleaning the machine is indirect (nonchargeable) labor.

§ **307. Method of Keeping Time.** It is the better practice to have each workman register "in" on a time clock when he arrives at the factory in the morning and afternoon, and "out" when he leaves at noon and in the evening. He also registers on his daily time ticket, the time when he begins work on any special job or process, and the time when he finishes the work assigned. The total time for the day reported on his daily time ticket should agree with the total time registered on the office clock. Some time recording device should be used in both the office and factory, as this is much better than having each workman write the time.

§ **308. Application of Labor Costs.** There are six general plans or methods of applying labor costs as follows: *Order number estimate, specific order number charge, piece work, average hour, list percentage,* and *machine hour* plan.

¶ 1. *Order number estimate.* This application is based on periodic tests. This means that no record is kept with the amount of labor expenses on each job or process, but the labor cost of each is based on the average cost of other jobs or processes of similar nature, the facts being obtained by periodical tests. It is one of the older methods of applying labor costs, and is not a modern practice.

¶ 2. *Specific Order Number Charge.* By this plan the labor expended (number of hours multiplied by the rate per hour) on each particular job or process is charged to it at the time the work is performed. In those factories where this method is applicable, it is very satisfactory because it gives definite results.

¶ 3. *Piece Work.* This method is the same as that just described under ¶ 2, except each particular job or process is charged with the cost of the work done upon it at the piece rate. This method prevails where men are paid by the piece instead of by the day or hour.

¶ 4. *Average Hour Plan.* In this method the cost of labor and expense is charged to each specific job or process at the proportionate cost per hour of labor and expense. It is really a method of average and under certain conditions may give accurate results, but it is not recommended unless the conditions are such that the actual labor and expense cost can not be obtained.

¶ 5. *List Percentage Plan.* This method applies to the manufacture of such articles as soap, mixed paints, wire nails, dress goods, etc. In this class of materials the factory cost of labor for the manufacture of each article as it passes through each process in the factory can not be definitely determined, hence it is necessary to estimate the labor cost on the list percentage plan. (§ 313.)

¶ 6. *Machine Hour Plan.* Under this method, the cost of labor and expense of maintaining the machine are combined, and each job or process is charged with this combined expense. This cost is based on the wages of the operator and the expense of operating the machine. This expense is ascertained by taking into consideration the floor space, power, and depreciation of the machine. This method is very satisfactory where it is possible to estimate the operating cost of each machine. If the factory cost of operating machines can not be ascertained, then the cost of each job or process which is charged with such costs will not be accurate.

§ 309. **Manufacturing Expense.** This is the third element of factory cost and the most difficult to determine. It is one of the important items of the production cost, but is the most elusive, and it is the cause of the many difficult calculations of costing. Manufacturing Expense includes all charges that can not be made direct to a job or process as it passes through the shop. It consists of the factory supplies used, depreciation of machinery and equipment, insurance, taxes, repairs, power, heat, light, rent or maintenance of real estate, nonproductive labor, etc. Some accountants include in the manufacturing expense the cost of maintaining the office and selling department. This is not best, because the production department should deliver the goods to the selling department at the manufacturing cost; the cost of maintaining the general office and the selling department is commercial expense, and should be separate from the production cost. If the machine hour rate is used and each job charged with the hour cost, including office expense, the hour rate for office and factory cost should be separated, or the two costs may be shown by an analytical statement.

¶ 1. *Departments.* If the factory is divided into departments, it is better to keep an account with the manufacturing expense of each department so that each job or process may be charged with the proportionate part of the manufacturing expense of the departments through which it passes. Thus, if a factory has five distinct departments, and a manufacturing expense account is kept with each, and a certain job passes through only four departments, this job would not be affected by the manufacturing expense of the fifth department. *Department* does not refer to *factor* unless a department has only one factor.

§ 310. **Method of Distributing the Manufacturing Expense.** The best method of distributing the exact amount of manufacturing expense that must be charged to any particular job or process depends on the nature of the business and the work being done. There are a number of methods in use, each of which has its good features and can be used to advantage under certain conditions. The methods most common in use are known as the *labor percentage rate*, *man hour*, *list percentage*, *sold hour*, and *machine hour*.

§ 311. **Labor Percentage Rate.** In this method the manufacturing expense is distributed on a percentage basis of the cost of direct labor. When it is used, it is assumed that the cost of the product increases in value in proportion to the cost of direct labor, and the greater the cost of direct labor, the greater will be the amount of the manufacturing expense. To ascertain the per cent of the manufacturing expense that should be charged to any one job or process, when this method is used, divide the total manufacturing expense for a month or fiscal period by the total cost of the productive labor for the same period. The quotient carried out to four places, if necessary, will give the per cent of direct labor to be charged for manufacturing expense. This is one of the older methods and under ordinary conditions is not very satisfactory, because as a rule the amount paid for productive labor is not closely connected with the manufacturing expense. The results obtained will not be accurate unless all employees are receiving approximately the same wages, are working the same time, the cost of each department is the same, and each job or process passes through all departments.

Illustration: The total cost of manufacturing expense for a given period is $1,200.00 and the amount paid for direct labor during that period is $5,000.00. According to the rule, the $1,200.00 would be divided by $5,000.00; this would give a quotient of .24 or 24%. This means that 24% of the amount paid for direct labor is added to cover the manufacturing expense. If the cost of labor for a given job is $40.00, then the manufacturing expense that would be charged to that job would be 24% of $40.00, or $9.60, making the cost of direct labor and manufacturing expense, $49.60. If the cost of materials is $20.00, the prime cost of this job would be $69.60.

NOTE. The percentage rate is sometimes based on the value of the materials used or on a combination of the direct labor cost and materials. Since, with few exceptions, the cost of materials is not closely connected with the cost of labor, there is no reason why this should be used to obtain the per cent of manufacturing expense to be charged.

§ **312. Man Hour Method.** In this method the total number of hours of direct labor is used as a basis instead of the total amount of wages paid. To ascertain the total amount of manufacturing expense with which any particular job or process is to be charged, the total amount of manufacturing expense is divided by the total number of direct labor hours. The quotient is the amount in dollars and cents per hour that must be charged to each job or process as manufacturing expense. This method is much better than the percentage rate, because it will apply when there is a wide difference in the rate paid for labor in the different departments or factors. When this method is used, separate accounts should be kept with the direct labor and manufacturing expense in each department.

Illustration: The total number of hours of direct labor for a given period is 6,000 and the total manufacturing expense for the same period is $1,200.00. According to this method, the manufacturing expense, $1,200.00, is divided by the number of hours, 6,000. The quotient is .20 or 20 cents for each hour of direct labor devoted to a given job or process. If a job has been charged with 82 hours of direct labor at a cost of 25 cents per hour, the labor charge would be $20.50. To this must be added 20 cents per hour, or $16.40 as manufacturing expense. If the materials cost is $15.00, the prime cost of this job would be $20.50, plus $16.40, plus $15.00, or $51.90.

§ **313. List Percentage.** This method differs from the percentage rate in that the rate per cent of the manufacturing expense is not based on the cost of labor or materials, but is based on the selling price or an assumed amount. It is applicable to the process method (§ 300) and is used only where the process method of costing is kept. The percentage must be obtained from actual tests and not from "experience". Where the conditions do not vary materially, it is not necessary to make the tests more than once each month, and in some cases three or four tests a year would be sufficient. Where the conditions are continually changing, the tests should be made often; otherwise the results obtained will not be correct.

Illustration: In a soap factory it is necessary for the materials to pass through four different departments before they become the finished product. By actual tests, it is ascertained that the cost of the materials in the first department is 8%, of labor 3%, and of manufacturing expense 2%. This makes a total cost of 13% for department A. As the job or process passes through department B, there is an additional cost of 5% for materials, 4% for labor, and 3% for manufacturing expense. This makes a total cost of 12%, or a total of 25% for the two departments. In department C there is an additional cost of 5% for materials, 2% for labor and 1% for manufacturing expense. This makes the total cost of department C 8%, which makes a total cost of 33% for these three departments. In department D there is an additional cost of 2% for materials, 6% for labor, and 5% for manufacturing expense, which makes the cost of the fourth department 13%, making the total cost of the four departments 46%. This 46% represents 46% of the selling price, which we will assume is $50.00 for one hundred units. This would make the cost of the 100 units $6.50 in department A, $6.00 in department B, $4.00 in department C, and $6.50 in department D, or a total cost of $23.00 in all four departments. The manufacturing expense for all future processes would be distributed in the same proportion. The list price on which these percentages are based need not be the selling price, but, as a rule, this is the case.

§ 314. **Sold Hour.** This method differs from the man hour in that each job or contract is charged with the actual cost per hour according to the pay roll, plus the cost per hour for manufacturing expense. In the man hour rate, each job or contract is charged with the cost of the employee's time, and when the job is completed, the manufacturing expense is then distributed in proportion to the hours of direct labor. In the sold hour rate, the manufacturing expense cost is ascertained and charged to the job when the employee's time is charged. In other words, the amount paid the employee does not appear on the charge, but is included with the manufacturing expense. In order to ascertain the manufacturing expense, it is necessary to take into consideration all of the charges to the departments or factors, including rent, heat, light, power, taxes, insurance, etc. The total cost of these divided by the total number of direct labor hours in that cost period is the rate of manufacturing expense, and this amount is added to the labor cost of the employee. This plan is very satisfactory if the cost of manufacturing expense in each department can be accurately obtained and is distributed according to the method outlined, but the results will not be satisfactory if the amount of manufacturing expense is based on "experience" instead of actual figures. This plan is best applied where the work is done largely by hand.

When the sold hour method of distributing the manufacturing expense is used, it is necessary to keep an accurate account of all the expenses with each factor (§ 316); otherwise the results obtained will be unsatisfactory. This method is sometimes referred to as distributing the cost through the machinist because all of the expenses are charged to the job through the wages of the employee.

Illustration: In the composing room of a printing business the total manufacturing expense for a given period, which includes rent, heat, light, taxes, insurance, interest on investment (cost of type and equipment) and the other charges, is $2,500.00. These figures represent the actual charges according to the account kept in the general ledger. The total number of chargeable hours (hours charged to jobs) for the same period is 4,000. According to the rule, the total amount of the manufacturing expense is divided by the number of chargeable hours, to ascertain the cost per hour, which is the amount that will be added to the cost of each employee's time. $2,500.00 divided by 4,000 gives 62½ cents per hour, which amount will be added to the cost of each employee's time. If a given job is charged with 40 hours' time in the composing room, and the wages of the compositor is 37½ cents per hour, this job would be charged with $40.00 as composing room cost. This $40.00 is obtained by multiplying the number of hours worked on that job in the composing room by the cost per hour of the compositor's time (37½ cents), plus the cost per hour for manufacturing expense (62½ cents).

MACHINE HOUR RATE.

§ 315. **Machine Hour Rate.** As compared with the sold hour rate (§ 314), this method is sometimes referred to as distributing the expense through the "point of the tool". Each job is charged with the cost of operating the machine, this cost including the interest on the investment, depreciation, repairs, rent (based on the floor space occupied by the machine), power (based on the actual power required for operating the machine), insurance, wages of the operator, and the various other charges that are included in the cost of operating the machine. It is the most scientific method of distributing the manufacturing expense, and should always be used where the plant is equipped with machines. It will also apply in departments where the work is done by hand.

The application of this rate requires that the factory be divided into production factors or centers. The manufacturing expense of each factor or production center is based on the installation cost and the term or operating cost.

§ 316. **Production Factor or Center.** If a factory is equipped with machines of the same size which are operated under the same conditions, the expense of each machine will be practically the same. To avoid unnecessary calculations in ascertaining the cost of operating each machine, it is best to combine each group of machines of the same size into a production factor or center. A production factor or center does not refer to departments which are in charge of a foreman, as each department may consist of one or more factors, according to the equipment of the department. Thus, a factory may be divided into a number of distinct departments, and the equipment of each department may require several factors in each. Where the nature of the goods manufactured is such that a job does not pass through all departments, it is the better practice to subdivide the factory into departments and each department into factors, each factor relating to the department rather than to the plant as a whole.

A production center or factor does not necessarily consist of machines, but may represent a workman's bench, a number of benches, or an open space occupied by workmen for assembling or testing. The wages of the men, nature of the work done and the equipment of the department will determine the number of men, space and equipment that will constitute each factor.

Illustration: The Ben Franklin Press, engaged in the printing business, divided its plant into four distinct departments—*stockroom, pressroom, composing room and bindery.* The stockroom is in charge of a stock clerk, whose duty it is to keep the stock and operate the cutting machine which is used to cut paper to the size needed. This department will represent one factor because it consists of only one machine. The pressroom is occupied by two sizes of presses, large ones known as cylinder presses and small ones known as job presses or jobbers. As the cylinder presses are of the same size and operated by employees whose wages are practically the same, they represent one factor. The cost of operating each job press is about the same, and all of these represent another factor. The composing room is equipped with a linotype machine for setting type, and type cases and imposing stones used by employees who set type by hand and prepare forms for the presses. This department is divided into two factors, one representing the machine composition and the other the hand composition. The bindery is equipped with stitching machines, a ruler, folder and other machines used in finishing books and pamphlets; also with tables and other equipment used by employees who do the hand work. This department is divided into two factors, one representing machines and the other the employees who do the hand work.

The plant is divided into four departments, because all jobs do not pass through all departments; each department is divided into factors because the cost of equipment and the cost of operating the different factors are not the same. The expense of operating the different departments or factors is charged to the proper department or factor at the time it is paid and is distributed over the jobs that pass through the department or factor according to the cost per hour, which is estimated by the machine hour rate. (§ 315.)

§ 317. **Installation Cost.** The installation cost includes the value of the machine, motor, shafting and extra parts of the machine that are necessary for operating it under certain conditions. To this must be added the freight charges and the expense of installing the machine, which includes the time required for placing the machine and getting it ready for operation. The object of ascertaining the total installation cost is to know the amount invested in machinery and equipment, so that the interest may be ascertained, as it is the interest and not the value of the equipment that is considered in the hour cost of operating the machines.

§ 318. **Term or Operating Cost** includes the depreciation for wear and tear, the cost of repairs, the rent based on the floor space, the power based on the number of horsepower, the light based on the number of lamps, the labor cost, the incidental expenses of each factor, and the expenses of the department which can not be charged to any particular factor. The total term cost, plus the interest on the investment, is divided by the total number of hours (§ 323 or § 324) to ascertain the cost per hour for operating the machine.

NOTE. Accountants disagree as to the application of interest as a manufacturing cost. This is a question that must be decided by the conditions under which the business is being conducted, and by the management. Interest is included as a part of the manufacturing cost in this set because it is the custom in the line of business represented.

§ 319. **Method of Ascertaining the Manufacturing Expense.** It is not practicable to ascertain the exact amount of the manufacturing expense that has occurred during the time a given job, contract, or order is in process of manufacture, hence it is necessary to estimate the amount. There are two methods of making this estimate, one based on past experience, and the other on the manufacturing expense for the preceding fiscal period or periods.

§ 320. **Past Experience.** Rent, superintendent and foremen's salaries, heat, light, taxes, depreciation of machinery, expense, and other fixed items of manufacturing expense may be correctly estimated because the amount to be paid is known. Power, repairs, department expenses, etc., can not be accurately estimated because the amount will not be known until the end of the month or cost period, and will depend upon the work done and the condition of each machine. For this reason the estimated manufacturing expense, even though the amount is based on past experience, will not be the exact amount, but as a rule, where the greater part of the charges are fixed, the estimate may be made sufficiently correct to answer all practical purposes. When this method is used, the Manufacturing Expense (or Factors Expense) account will have a debit or credit balance at the close of the fiscal period, depending upon whether the estimate is over or under the actual expenditures. The manufacturing expense is usually estimated for one year, but if the cost periods are less, the expense for each period will be the proper proportionate part of a year; thus, if the period is six months, the expense will be one-half of that estimated; if for one month only, one-twelfth. If the estimated manufacturing expense for the ensuing year is $3,000.00, the expense for a cost period of one month will be $250.00.

Illustration: The manufacturing expense of the Boyd Manufacturing Co. for the year 1916 was as follows: rent, $1,500.00; building expense, $300.00; superintendent, foreman and cost clerk's salaries, $2,400.00; power, $900.00; taxes, $75.00; repairs, $300.00, and depreciation on machinery, $300.00. On the first of January, 1917, the management wishes to estimate the expense for the coming year, and find by comparing the expenses named with those of preceding years that the amounts are about the average and decide to accept these as the amount of manufacturing expense that will be incurred during the year 1917. They decide to divide the year into twelve cost periods and to ascertain the condition of the business at the end of each cost period. According to the above estimate, the total manufacturing expense will be $5,475.00, and for one cost period, one-twelfth of this amount, or $456.25. The factory is divided into six factors or production centers; No. 1 is charged with 20% of the total manufacturing expense, No. 2 with 15%, No. 3 with 15%, No. 4 with 25%, No. 5 with 5%, and No. 6 with 20%. According to these charges the manufacturing expense of factor No. 1 is $91.25. If this factor produces 200 hours, each job, contract or process that passes through it will be charged with 46 cents per hour for the time it is in the department.

§ 321. **Previous Periods.** When this method is used, the average manufacturing expense for a number of preceding periods is distributed over the current period; twelve or even twenty-four periods may be used, but as a general rule, six are sufficient. The average of a number of periods is used, to avoid a heavy expense for the current period on account of limited work in the preceding period, or a small expense on account of overtime. To ascertain the amount of the manufacturing expense to be distributed, add the expenses for the six (or more) preceding periods and divide the total by the number of periods. This method differs from the one described in § 320 in that no estimate is made of the expense that will occur, but the actual expenses of the preceding periods are distributed over the current period.

Illustration: The manufacturing expense of the Citizens Manufacturing Co., for the month of January, 1917, was $2,500.00; February, $2,600.00; March, $2,800.00; April, $2,400.00; May, $2,700.00, and June, $2,600.00. The total expense for the six months was $15,600.00. The average for the six months is $2,600.00, which is the amount to be distributed as the manufacturing expense in July. If the factory is divided into six factors or producing centers with the same proportionate expense as given in the preceding illustration, the amount of expense for factor No. 1 will be 20% of $2,600.00, or $520.00. If this factor produces 400 hours, each job or contract that passes through factor No. 1 will be charged with $1.30 per hour for the time it was in the department. If desired, the total number of chargeable hours in each factor for the six preceding periods may be divided into the total expense of each factor for the six periods. The result will be the hour cost of operating each factor.

It can not be said that either method of ascertaining the manufacturing expense is preferable, because one may be more satisfactory under certain conditions than the other. Each has its place in manufacturing businesses, and the accountant must decide which will give the more correct result.

§ 322. **Methods of Distributing Manufacturing Expense.** There are two methods of distributing the manufacturing expense over the various jobs as they pass through the shop; one is based on the efficiency hours and the other on the productive or chargeable hours.

§ 323. **Efficiency Hours.** With this method, the total number of hours that a machine may work is used as a basis for distributing the manufacturing expense; thus, if eight hours constitutes a work day, and there are 25 days in the cost period, the total number of hours a machine could work would be 200. If the manufacturing expense applicable to a machine is $100.00, each job on which the machine worked would be charged with 50 cents per hour for the time it occupied the machine. The same applies when a number of machines are considered as a factor or production center.

With this method, idle time is charged to each job by a supplementary rate. This is ascertained by multiplying the idle time of each factor by the expense rate per hour, and dividing the total by the number of productive hours, which is the actual time worked. Thus, if 50 hours are lost during a week or cost period and the manufacturing expense is 50 cents per hour, the value of the lost time is $25.00. If all the factors worked 500 hours during the period, each job would be charged with 5 cents per hour in addition to the manufacturing expense of 50 cents per hour, this 5 cents being the charge for lost time. If the rate of the manufacturing expense differs with the different factors, the lost time on each factor must be considered. Overtime would reduce the manufacturing cost and be deducted in the same manner as lost time is added.

§ 324. **Productive or Chargeable Hours.** With this method, the manufacturing expense is distributed on the basis of the number of productive hours the machine or factor has worked. A record is kept of the productive or chargeable hours, and the nonchargeable hours, but only the chargeable hours are used in connection with the distribution of the manufacturing expense. Chargeable hours are those that are charged to jobs in process of manufacture. Nonchargeable hours refer to the time that is not charged, which is usually that given to idle time, cleaning machines, repairing, and such other work as does not refer to any particular job. With this method, each job is charged with the actual expense incurred while it was being worked on by any particular machine or factor; hence no additional charge by supplementary rate is necessary in case of lost time.

Illustration: If the manufacturing expense to be distributed over a given factor is $150.00 and the factor has produced 300 productive hours, each job that passes through that factor must be charged with 50 cents per hour as manufacturing expense. A supplementary record should be kept of idle time to show the cost of this separate from that of indirect labor.

It can not be said that either method is the better; each has its place, and one may be used to advantage where the other would be entirely unsatisfactory. If there is very little lost or nonchargeable time, the efficiency hour method will give better results, because it requires an accurate record of all time. If there is a great deal of lost or nonchargeable time, this method would require too many calculations in order to ascertain the supplementary rate. Since a record of the nonchargeable hours may be proved to be correct, the chargeable hour method might be better under such circumstances.

§ 325. **Method of Charging the Manufacturing Expense.** Each job must be charged with the manufacturing expense incurred while it is in process.

There are two methods of making this charge; one is in connection with the labor cost, and the other is separate and distinct from it. When the machine rate is used, this rate may include labor cost and the manufacturing expense, or it may include manufacturing expense only. Since the cost of the manufacturing expense does not have a close relation to the cost of labor, there is usually no necessity for keeping the two separate, and both may be charged as one amount. If it requires two men to operate a machine and one receives 50 cents per hour and the other 25 cents per hour, the labor cost is 75 cents per hour. If the manufacturing expense to be distributed is 40 cents per hour, each job that occupies the machine must be charged with $1.15 per hour, labor and manufacturing expense cost. The fact that the labor is 75 cents and the manufacturing expense 40 cents has no bearing upon the cost of the article, and the only object in keeping them separate is to compare the cost of each with preceding periods. Since all the cost of operating a machine is calculated at the time the machine rate is ascertained, a comparison of total cost is given.

Sometimes the machine hour rate includes labor, manufacturing expense, and commercial (office) expense. In case these are charged to each job in one rate, the charges must be separated when the Manufacturing statement is made, as the management should know the manufacturing cost separate from the office cost.

It can not be said that either method is the better because of the varying conditions in the manufacturing business. If each factor is separate and distinct, and the employees engaged in operating one have nothing to do with the others, the charges for labor and manufacturing expense may be made separately. On the other hand, if the employees are engaged in different factors, it is better to make the charge for both labor and manufacturing expense in one amount.

§ 326. **Outline of Accounts.** The accounts used in this set are outlined on page 246. This is based on the classification of accounts given in §§ 28–35, with the addition of those accounts necessary to ascertain the cost of manufacturing.

MACHINERY AND EQUIPMENT ACCOUNT.

§ 327. **The Object of this Account** is to show the cost of machinery used in the manufacturing (production) department. If the business operates its own power plant, the cost of the machines operated in connection with this should be kept separate from the cost of the machines used in producing the articles manufactured. It is not advisable to include in the Machinery and Equipment account the cost of small tools which have short lives; their value can best be represented by a separate account.

Debit Machinery and Equipment Account:

¶ 1. With the cost of machinery and equipment on hand at the beginning of the business.

¶ 2. With the cost of machinery and equipment purchased.

¶ 3. With the cost of additions or alterations which increase the efficiency of the machine.

¶ 4. With the cost of any part or parts purchased.

Credit Machinery and Equipment Account:

¶ 5. With the cost of any article disposed of, the value of which was charged to this account.

¶ 6. With the cost of any article replaced, exchanged, discarded or destroyed. (At the same time debit the Reserve for Depreciation account.)

¶ 7. *The Balance of this Account* shows the cost of machinery and equipment on hand. It is shown as a fixed asset on the Balance Sheet.

(*Concluded on page 247.*)

OUTLINE OF ACCOUNTS USED IN THE COST ACCOUNTING SET.

- Current Assets........
  - Cash.
  - Petty Cash Fund.
  - Accounts Receivable.
  - Inventory......
    - Materials.
    - Materials in Process.
    - Machine Time in Process.
    - Ink.
    - Factory Supplies.

- Fixed Assets......
  - Office Equipment.
  - Machinery and Equipment.
  - Type.
  - Linotype Metal.

- Deferred Charges to Operations......
  - Taxes.
  - Insurance.
  - Store Room Supplies.

- Current Liabilities.........
  - Vouchers Payable.
  - Accrued Liabilities.

- Valuation.........
  - Reserve for Depreciation of Office Equipment.
  - Reserve for Depreciation of Machinery and Equipment.
  - Reserve for Depreciation of Type.
  - Reserve for Depreciation of Linotype Metal.
  - Reserve for Doubtful Accounts.

- Capital..................
  - Capital Stock.
  - Surplus.
  - Dividend.

- Manufacturing..........
  - Materials Used.
  - Pressroom Expense.
  - Stockroom Expense.
  - Composing Room Expense.
  - Building Expense.
  - Power.
  - Interest.
  - Variations of Weights and Measures.
  - Spoilage.

- Trading............
  - Cost of Sales.
  - Sales.

- Operating............
  - General Administrative Expense.
  - Selling Expense.

- Other Income...........
  - Purchases Discount.
  - Interest.

(*Continued from page 245.*)

¶ 8. *To Close the Machinery and Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

§ 328. **Going Inventory of Assets.** The bookkeeping department should keep a going inventory of all fixed assets. This is kept in a special inventory book, which may be prepared with the same ruling as the ordinary journal, or special ruling, if the nature of the business requires it. In the case of machinery, each machine should be given a number at the time it is purchased and this number indicated on the inventory book. If an article listed in this book is disposed of, the cost value should be shown, because the value of machinery and equipment shown by the inventory book must prove with the balance of the Machinery and Equipment account. Where the machines are large and the special equipment is extensive, it might be well to give each machine two pages in the inventory book, the left page for the cost price of the machine and equipment when purchased, and the right page for the cost price of the machine or any part of the equipment, when sold, transferred or discarded.

RESERVE FOR DEPRECIATION OF MACHINERY AND EQUIPMENT ACCOUNT.

§ 329. **The Object of this Account** is to show the net amount of reserve created to provide for the decrease in value of the machinery. It assumes that the machinery will be kept in repair, and that the cost of repairs will be charged to the Manufacturing Expense account. If any part becomes worn and must be replaced, this is not repairs but new parts, the cost of which must be taken care of by this account.

Debit Reserve for Depreciation Account:

¶ 1. With the difference between the costs, and selling or exchange price of any part, parts, or all of the machinery and equipment, when sold or exchanged.

¶ 2. With the cost of any part or parts that have been debited to the Machinery and Equipment account and subsequently destroyed or discarded.

Credit Reserve for Depreciation Account:

¶ 3. At the close of each fiscal period with the amount of the depreciation fixed by the management at the time of purchase.

NOTE.—If at any time the debit side of the Reserve account is the larger, an additional reserve is taken from the surplus, as this is evidence that the amount designated at the close of the preceding fiscal period was not sufficient to take care of the decrease in value.

¶ 4. *The Balance of this Account* shows the net amount of reserve created to take care of the decrease in value of machinery and equipment. It is a valuation account and shown on the Balance Sheet as a deduction from the cost value of Machinery and Equipment.

¶ 5. *To Close the Reserve for Depreciation of Machinery and Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

SMALL TOOLS ACCOUNT.

§ 330. **The Object of this Account** is to show the value of small tools on hand. This includes such items as machine tools, trucks, time recording devices, and other articles necessary in the business, but of a less permanent nature than machinery. Unless the amount invested in this class of property is very large, the value may be charged to the Factory Supplies account. In the printing business linotype metal may be handled in the same manner as small tools.

Debit Small Tools Account:

¶ 1. With the cost of small tools on hand at the beginning of the business.

¶ 2. With the cost of small tools purchased.

Credit Small Tools Account:

¶ 3. With the amount received from the sale of small tools.

¶ 4. At the close of the fiscal period with the difference between the balance of the account and the value of small tools on hand.

¶ 5. *The Balance of this Account* shows the value of small tools on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Small Tools Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

PATTERNS ACCOUNT.

§ 331. **The Object of this Account** is to show the cost of patterns. It is peculiar to those businesses engaged in the manufacture of products of iron and steel. Thus if the business is manufacturing lawn mowers, it is necessary to have patterns for the different parts that go into the lawn mower, so that the parts may be moulded in the foundry. The business may own its own patterns and have the foundry work done on the outside by contract, or it may own its own patterns in connection with its own foundry. The Patterns account would not be affected by this, unless the patterns be made a part of the foundry department. In the printing business electrotypes, halftones and other cuts are of the same nature as patterns.

Debit Patterns Account:

¶ 1. With the cost of stock patterns on hand at the beginning of the business.

¶ 2. With the cost of stock patterns purchased.

¶ 3. With the cost of stock patterns manufactured. If patterns are made by the business, a production order should be made for each and an accurate account kept with the cost.

Credit Patterns Account:

¶ 4. With the cost of stock patterns that have become useless on account of being obsolete because there is no longer a demand for the particular product for which they are used.

¶ 5. With the cost of any patterns discarded or accidentally destroyed.

¶ 6. *The Balance of this Account* shows the cost of patterns on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 7. *To Close the Patterns Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

PATENT RIGHTS ACCOUNT.

§ 332. **The Object of this Account** is to show the cost of patent rights owned by the business. The U. S. Government, through the patent office, protects the inventor of a machine or device by giving him the exclusive right of manufacturing and selling it for seventeen years. The object of this protection is to encourage improvements in machines and devices. After the inventor has complied with the conditions imposed by the patent office and secured the patent right, no other person can manufacture this article during the life of the patent. It is assumed that the seventeen years' exclusive right will repay the inventor for his genius in inventing the special machine or device which is patented. The patent right may be owned by the inventor and manufactured on a royalty or owned by the business. The debits and credits described under ¶¶ 1-4 apply only when the patent right is owned by the business. If the business manufactures its product on a royalty, the amount paid as royalty will constitute a part of the manufacturing expense. In the printing business, copyrights are of the same nature as patent rights.

Debit Patent Rights Account:

¶ 1. With the cost of patent rights on hand at the beginning of the business.

¶ 2. With the cost of acquiring patent rights, which includes all amounts paid for the necessary services of securing the patent right, such as mechanics, engineers, draughtsmen, legal fees, models and any other necessary expenses.

¶ 3. With the cost value of all patent rights purchased.

Credit Patent Rights Account:

¶ 4. At the close of each fiscal period with the proper proportion of the cost which has expired, estimated on the basis of time it has run. If the patent is secured by the business and the fiscal period is one year, this would be 1-17 of the total cost of procuring the patent. If the patent is secured after it has run five years, this would be 1-12 of the cost. If the fiscal period is less than one year, the same proportion would be used.

¶ 5. *The Balance of this Account* shows the present value of patents owned by the business. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Patent Rights Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

MATERIALS ACCOUNT.

§ 333. **The Object of this Account** is to show the cost of all materials bought to be used in the manufacture of the various job orders, or contracts. It is a controlling account because the total of the balances of the accounts in the materials ledger agrees with the balance of this account.

Debit Materials Account:

¶ 1. With the cost of materials on hand at the beginning of the business.

¶ 2. With the cost of materials purchased.

¶ 3. With the cost of freight, express, or drayage inward on materials purchased.

¶ 4. With the cost of materials returned to stock on account of their not being used, and the discrepancies discussed in § 337.

Credit Materials Account:

¶ 5. At the end of each month with the cost value of all stock requisitioned from the stockroom for the purpose of being converted into the finished product.

¶ 6. With the cost of materials purchased but subsequently returned.

¶ 7. With the cost of materials sold, destroyed, damaged, stolen, and the discrepancies discussed in § 337.

¶ 8. *The Balance of this Account* shows the value of materials on hand. It is shown as a current asset on the Balance Sheet.

¶ 9. *To Close the Materials Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

§ 334. **Materials Record.** Accurate results can not be obtained in any method of costing unless a going inventory is kept with materials purchased to be used for manufacturing the products of the factory. This should be kept in a special ledger, where an account is kept with each kind of materials purchased. This account should have two columns, one for the date of invoice and number of units received, and the other for the date of the requisition and number of units used. The cost price per unit should be indicated, but the value is not necessary. When a physical inventory is made, the value of the stock may be ascertained by multiplying the number of units by the cost. If freight is paid on materials purchased, the value of this should be shown in the unit price. Thus, if an article costs $4.50 per hundred pounds and the freight cost is 50 cents per hundred, the entry in the materials ledger would be $5.00 per hundred pounds, and this price would be used in estimating the cost value of stock requisitioned, and the cost value of units on hand at the close of the fiscal period.

The clerk who keeps the materials ledger makes his record for materials received from a copy of the order, and for materials used from the requisitions issued on the stock clerk. He records the number of units of materials received in the "Received" column, and the number of units of materials requisitioned or sold, in the "Used" column. The balance should be the number of units on hand. The materials should be kept in a storeroom under lock and key, and an efficient clerk placed in charge of it. He is given a copy of the order with which he checks the stock received. Any discrepancy or shortage will be reported by him, and this should be checked with the invoice by a clerk in the office.

When stock is needed in the process of manufacture, the superintendent issues an order or requisition for it. The job order blank should accompany this requisition so that the stock clerk may check the stock items on it and thus avoid duplicating the issue. If desired, the stock clerk may be required to keep a materials ledger similar to that in the office, and it is the best practice to do this, as it gives a better check on the materials received and requisitioned.

Illustration No. 130 shows the form of a materials ledger account arranged for keeping a record of paper stock in a printing business.

MATERIALS IN PROCESS ACCOUNT.

§ 335. **The Object of this Account** is to show the cost of materials in process, that is, materials that are being used in the manufacture of jobs, contracts, or processes. Such materials differ from the regular stock, in that they may have already changed in form, and the person for whom the work is being done, is now liable for payment. It is a controlling account because the value of materials charged to jobs in process as shown by the job cost ledger, agrees with the balance of this account.

Debit Materials in Process Account:

¶ 1. With the cost of materials in process at the beginning of the fiscal period.

¶ 2. With the cost of materials requisitioned from stock to be used on jobs in the process of manufacture.

¶ 3. With the cost of special materials purchased for a job in the process of manufacture.*

Credit Materials in Process Account:

¶ 4. With the cost of materials that have been charged to this account, the entry being made at the time the job is completed and charged to the customer.

¶ 5. With the cost of materials requisitioned from stock and returned on account of their not being used.

¶ 6. *The Balance of this Account* shows the cost of materials in process of manufacture. It is shown as a current asset on the Balance Sheet. The materials in process at the beginning of the fiscal period, the value of materials requisitioned during the period, and the value of materials in process at the close of the period are used on the Profit and Loss statement to show the cost of materials in jobs completed and charged.

¶ 7. *To Close the Materials in Process Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the credit side, the account ruled with single and double red lines, and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

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*NOTE. Some accountants advise charging all materials purchased to the Materials account and having a requisition issued for the materials used for each job, even though the material was ordered especially for the job. When this plan is followed the stock clerk would keep an account in the materials ledger with special stock ordered for jobs or contracts in process of manufacture. If the purchase is charged direct to the Materials in Process account without passing through the Materials account, a supplementary record should be kept of the stock, and this should be proved with the entries for materials in the job cost ledger.

MANUFACTURED PARTS ACCOUNT.

§ 336. **The Object of this Account** is to show the cost of parts manufactured and kept in stock to be used in the production department or to be sold. The account is not kept unless parts are manufactured and kept in stock. If they were purchased, their value would appear in the Materials account, and some accountants recommend charging their value there, even when they are manufactured. When this account is kept, it will show the value of manufactured parts only, and a special record should be kept of the parts in the same manner as the materials ledger. It is a controlling account, because the total value of all manufactured parts on hand agrees with the balance of the Manufactured Parts account. In the printing business, blank forms, cases for books and other stock prepared for general use in printing are of the same nature as manufactured parts.

Debit Manufactured Parts Account:

¶ 1. With the cost of manufactured parts on hand at the beginning of the business.

¶ 2. With the cost of parts manufactured for stock.

¶ 3. With the cost of manufactured parts which have been requisitioned but returned because they were not used.

¶ 4. With the cost of manufactured parts sold and returned for credit by a customer.

Credit Manufactured Parts Account:

¶ 5. With the cost of manufactured parts sold which have been charged to this account.

¶ 6. With the cost of parts requisitioned from stock which have been charged to this account, and which are to be used in the manufacture of the finished product.

¶ 7. With the cost of manufactured parts destroyed, damaged, stolen, or any discrepancies.

¶ 8. *The Balance of this Account* shows the value of manufactured parts in stock. It is shown as a current asset on the Balance Sheet.

¶ 9. *To Close the Manufactured Parts Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

VARIATIONS OF WEIGHTS AND MEASURES ACCOUNT.

§ 337. **The Object of this Account** is to show the difference between the inventory value and the book value of materials in stock. No matter how careful the stock clerk may be, it is hardly possible that the number of units of stock received less the number of units issued on requisition will equal the number of units on hand. Prices will also vary according to the market costs, hence the price to be used in estimating the value of stock on hand may not be the same as that at which the Materials account is debited and credited. When a physical inventory is made, the discrepancy between the balance of each material account (number of units on hand multiplied by cost price) in the materials ledger and the actual value of the materials represented by these accounts, is charged or credited to this account. The value of the discrepancy is distributed over the cost of the various jobs through the stockroom factor.

Debit the Variations of Weights and Measures Account:	*Credit the Variations of Weights and Measures Account:*
¶ 1. With the discrepancy between the balance of materials on hand as shown by the physical inventory and the balance of the Materials account in the general ledger, if the physical inventory shows a smaller balance than the material accounts in the materials ledger.	¶ 2. With the discrepancy between the balance of the materials on hand as shown by the physical inventory and the balance of the Materials account in the general ledger, if the physical inventory shows a greater balance than the material accounts in the materials ledger.

¶ 3. *The Difference Between the Two Sides of this Account* shows the variations of weights and measures. If the debit side is the larger, it increases the materials cost; if the credit side is the larger, it decreases the materials cost. It is shown as a part of the materials cost on the Profit and Loss statement.

¶ 4. *To Close the Variations of Weights and Measures Account.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

SPOILAGE ACCOUNT.

§ 338. **The Object of this Account** is to show the cost value of materials spoiled in process of manufacture, and rebates allowed customers for damaged goods. No matter how careful an employee may be, mistakes will be made and the business will suffer loss by these. Such losses are distributed over the various factors according to the chargeable hours.

Debit Spoilage Account:	*Credit Spoilage Account:*
¶ 1. With the cost of materials spoiled by careless workmen while in process of manufacture. ¶ 2. With amounts allowed customers for damaged goods returned because they were not manufactured according to contract.	¶ 3. With any amount received for the sale of materials or goods returned, the value of which was charged to this account. ¶ 4. With the value of any materials or manufactured goods on hand at the close of the fiscal period, the value of which was charged to this account.

¶ 5. *The Difference Between the Two Sides of this Account* shows the loss on account of spoilage. It is shown as a manufacturing cost on the Profit and Loss statement.

¶ 6. *To Close the Spoilage Account.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

LABOR ACCOUNT.

§ 339. **The Object of this Account** is to show the amount paid for labor in the factory, which includes amount paid employees in the factory and salaries of officers or clerks in connection with the manufacturing department. The office pay roll is a part of the commercial cost, and is debited to the proper expense accounts. If separate accounts are kept with departments, and employees in one department do not work in another department, the amount paid for pay roll in each department may be charged direct to the department, but it is the better practice to charge to a Labor account and distribute to the departments at the time the machine hour rate is ascertained. The pay roll for each factor is ascertained from the time book.

Debit Labor Account:	*Credit Labor Account:*
¶ 1. For all amounts paid for the services of factory employees. (This charge may be made at the time the pay roll voucher is written, or at the end of the month if a special Labor column is provided in the vouchers payable book. If direct labor and indirect labor are to be separate, indicate the amount of each on the voucher.)	¶ 2. With any amount that reduces the amount paid to factory employees.

¶ 3. *The Difference Between the Two Sides of this Account* shows the amount paid for labor. It is shown as a manufacturing cost on the Profit and Loss statement.

¶ 4. *To Close the Labor Account.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

NOTE. Direct labor refers to the time of workingmen charged to jobs or contracts in process of manufacture. Indirect labor is divided into two classes. One refers to the time of workingmen that can not be charged to jobs or contracts in process; the other, the overhead or burden expense, which is the salaries of superintendents, foremen, time clerks, and other office employees engaged in the manufacturing department. Perhaps the reason this is designated as overhead or burden expense is that it is in addition to the usual labor cost. A distinction must be made between these two indirect labor costs when the hour cost of operating each factor is ascertained, because each affects this cost according to the nature of the charge. The success of a cost system depends upon the accuracy of the hour cost, and this can not be correct unless the labor charges are properly distributed.

MANUFACTURING EXPENSE ACCOUNT.

§ 340. **The Object of this Account** is to show the cost of maintaining the production department outside of the cost of materials and direct labor. It includes such expenses as rent, heat, light, power, factory supplies, nonproductive labor (if indicated separate from productive labor), repairs on machinery and equipment, depreciation on machinery and equipment, insurance on machinery and equipment, taxes, interest (if there is a mortgage on the plant), salaries of superintendents, cost clerks, time clerks, foremen, and all other expenses in connection with the production department. All of these charges may be made to one account or to an account for each department.

NOTE. Manufacturing expense is sometimes referred to as factory expense, in which case it includes the cost of direct labor and indirect labor as well as the usual manufacturing expense items. This is not the best practice, but gives reasonably satisfactory results, especially in a small concern. When this method is used, the prime or factory cost is the materials cost plus the factory expense.

Debit Manufacturing Expense Account:

¶ 1. With amounts paid for heat, light, power, and all other expenses in connection with the production department as explained.

¶ 2. With the cost of small tools used.

¶ 3. With the depreciation on machinery and equipment.

Credit Manufacturing Expense Account:

¶ 4. With any adjustment that diminishes the charges to this account.

¶ 5. At the close of the fiscal period with the balance of the account, which at the same time should be debited to the Manufacturing account.

¶ 6. *The Difference Between the Two Sides of this Account* shows the cost of manufacturing expense. It is shown as a manufacturing cost on the Profit and Loss statement.

¶ 7. *To Close the Manufacturing Expense Account.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

NOTE. If the sold hour or machine hour plan of distributing the manufacturing expense is used, special accounts may be kept with the various expenditures in order to facilitate distribution, in which case the only charge to Manufacturing Expense account would be the special payments for each department, which would be charged to the Manufacturing Expense account for that department. In this case, it is better to keep a separate account with Building Expense, Power, Labor, etc. The method of keeping these accounts will depend largely upon the nature of the business and the method of distributing the expense.

FACTOR FOR SAFETY ACCOUNT.

§ 341. **The Object of this Account** is to show the discrepancy between the *actual* cost of machine time as shown by the manufacturing accounts and the *average* cost which is based on the manufacturing expense for a series of preceding cost periods. At the close of the fiscal period the cost of machine time in jobs completed during the period is shown by the manufacturing statement, this cost being the actual expenses for the period. The difference between the actual cost of machine time as shown by the Manufacturing statement and the estimated cost as shown by the balance of the Machine Time account or accounts, is designated as Factor for Safety.

Debit the Factor for Safety Account:

¶ 1. With the difference between the actual machine time cost (that shown by the Profit and Loss statement) and the average cost (balance of the Machine Time accounts), if the actual cost is the larger.

Credit the Factor for Safety Account:

¶ 2. With the difference between the actual machine time cost (that shown by the Profit and Loss statement) and the average cost (balance of the Machine Time accounts), if the average cost is the larger.

¶ 3. *The Balance of this Account* shows the discrepancy between the actual cost and the average cost. The factor for safety for the current cost period is shown on the Profit and Loss statement to make the actual and average cost of sales balance. The balance of the Factor for Safety account shown on the Trial Balance, including the factor for safety for the current period is shown on the Balance Sheet as a deferred charge or credit to operations.

¶ 4. *To Close the Factor for Safety Account.* This account may be closed into the Profit and Loss account at the close of each fiscal period, or it may remain open. If closed, it will balance after the entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted. It is then ruled with single and double red lines and footed with black ink.

MACHINE TIME ACCOUNT.

§ 342. **The Object of this Account** is to show the cost of machine time produced in the various departments. If distinct departments are maintained, it is best to keep separate Machine Time accounts with each department. Bindery Machine Time account represents all the machine time produced in the bindery; Pressroom Machine Time account represents all the machine time produced in the pressroom, etc.

Debit Machine Time Account:

1. With the cost of machine time in process at the beginning of the fiscal period; this entry is made after the books are closed for the preceding period.

Credit Machine Time Account:

¶ 2. With the cost of machine time produced during the fiscal period; this entry is made at the same time the Cost of Sales account is debited at the end of each month.

¶ 3. With the cost of machine time in process at the close of the fiscal period as shown by the inventory from the job cost ledger; this entry is made prior to the final Trial Balance at the close of the fiscal period.

¶ 4. *The Difference Between the Two Sides of this Account*, at the close of the fiscal period, shows the cost of machine time produced during the period. This cost may be the same as the manufacturing accounts, consisting of Power, Building Expense, Departmental Expenses, etc., but since the cost of time debited and credited to this account is based on the average for the preceding periods and the cost shown by the manufacturing accounts are the actual payments, it is hardly possible that the two costs will agree. If a discrepancy exists, it is debited or credited to the Factor for Safety account, as explained in § 341. This account is not shown with the manufacturing accounts on the Profit and Loss statement, the cost of machine time being ascertained from the manufacturing accounts.

¶ 5. *To Close the Machine Time Accounts.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

FINISHED PRODUCTS ACCOUNT.

§ 343. **The Object of this Account** is to show the cost of manufactured goods placed in stock. This refers to goods manufactured and placed in stock and not those manufactured on special orders. It is a controlling account since the total of the balances of the accounts kept by the stock clerk must prove with the balance of this account. The going inventory kept by the stock clerk should be proved by a physical inventory at least once each year.

In a printing business, books, blank forms, and other printed stock manufactured for stock or for a special customer and carried in stock until needed, are of the same nature as finished products.

Debit Finished Products Account:

¶ 1. With the cost of finished products on hand at the beginning of the business.

¶ 2. At the close of each month with the cost of goods finished and placed in stock for future sale.

Credit Finished Products Account:

¶ 3. At the close of each month with the cost of finished products sold.

¶ 4. *The Balance of this Account* shows the cost value of finished products carried in stock. It is shown as a current asset on the Balance Sheet.

¶ 5. *To Close the Finished Products Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the debit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

COST OF SALES ACCOUNT.

§ 344. **The Object of this Account** is to show the cost price of the goods manufactured, and charged to customers. It represents the cost of goods which have been sold and has no reference to goods in stock yet to be sold, or in process of manufacture. If separate Sales accounts are kept with each department, the same number of Cost of Sales accounts should be kept.

Debit Cost of Sales Account:

¶ 1. With the cost of materials and machine time in manufactured goods, and charged to customers; at the same time credit the Materials in Process account and the Machine Time account or accounts.

¶ 2. With the cost of materials sold; at the same time credit the Materials account.

Credit Cost of Sales Account:

¶ 3. With the cost of goods returned by customers for credit; at the same time debit the Materials account if the goods are to be placed in stock, or Spoilage account if the return is made on account of the goods being damaged.

¶4. *The Difference Between the Two Sides of this Account* shows the net cost of manufactured goods and materials sold. It is shown with the trading accounts on the Profit and Loss statement.

¶ 5. *To Close the Cost of Sales Account.* When the journal entry to close the trading accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

SALES ACCOUNT.

§ 345. **The Object of this Account** is to show the net returns from sales of manufactured goods and materials sold from stock. If different departments are maintained, a Sales account may be kept with each department, but it is the better practice to keep only one account with Sales. If it is desired to show the sales for each department, this can be done by writing the name of the department in the explanation column in the ledger, or by an analytical statement.

Debit Sales Account:

¶ 1. With the value (at the selling price) of goods returned by customers, if credited to this account when sold.

Credit Sales Account:

¶ 2. With value of each sale, or at the close of each month with the total sales of finished products at the selling price.

¶ 3. With the value of each sale of materials or finished products in the same manner as described in ¶ 2.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net returns from sales. It is the principal trading account and is shown with the trading accounts on the Profit and Loss statement.

¶ 5. *To Close the Sales Account.* When the journal entry to close the trading accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

SALES OF BY-PRODUCTS ACCOUNT.

§ 346. **The Object of this Account** is to show the returns from sales of by-products. The account is kept only when the by-products are sold, and not when they are manufactured into other articles. If they are used in this manner, special accounts must be kept so that the true cost of the articles manufactured may be shown. To discuss the best method of keeping accounts with by-products when they are used in connection with the manufacture of other articles, would require more space than can be given to this subject. Any of the numerous texts on cost accounting will give the necessary information. The debits and credits given are for the account when the by-products are sold without being manufactured into some other article.

Debit Sales of By-Products Account:

¶ 1. With any expense in preparing the article for sale.

¶ 2. With any rebate allowed for sales credited to this account.

Credit Sales of By-Products Account:

¶ 3. With the returns from sales of by-products.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net returns from sales of by-products. It is shown as a special income on the Profit and Loss statement.

¶ 5. *To Close the Sales of By-Products Account.* When the journal entry to close the profit and loss accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

NOTE. In every factory there is more or less waste of materials on account of jobs in process, all of which should be utilized in making some article, or sold to some one who can use it. In some factories the sales of by-products constitute a large part of the income. In the manufacture of sash, doors, and other building materials, the by-products consist of the waste lumber, sawdust and shavings. The waste lumber may be manufactured into some useful article or sold to some factory that can utilize it. If it is absolutely worthless for manufacturing purposes, it can be sold for kindling or other purposes. In the printing business there is much waste paper, caused by trimming stock, "make ready," soiled sheets, etc. All of this can be used by the paper manufacturer in making new paper. The successful manufacturer will see that no by-products are wasted. It is said that the pork packers owe much of their success to the saving in the sales of by-products, everything being used except the "squeal."

POWER ACCOUNT.

§ 347. **The Object of this Account** is to show the cost of water, steam, or electric power used in operating the plant. This power may be purchased or manufactured. If it is manufactured, special accounts must be kept to show the cost of maintaining the power plant. If it is purchased, one account with Power is sufficient.

The account is *debited* for all amounts paid for power and *credited* with any rebates that reduce the costs as shown by the debit side. The *balance* shows the net amount paid for power and is a part of the manufacturing expense which is distributed over the various factors according to the number of horsepower required in each and the number of chargeable hours produced. It is shown with the manufacturing accounts on the Profit and Loss statement in connection with the machine hour cost. When the journal entry to close the ledger is made, the balance of this account is transferred to the Manufacturing or Machine Time account, and it is ruled with single and double red lines and footed with black ink.

TAXES ACCOUNT.

§ 348. **The Object of this Account** is to show the amount paid for county, city, state or United States taxes or license. It is of the same nature as the Insurance account.

The account is *debited* for all amounts paid for license or taxes, and *credited* at the close of each fiscal period for the proportionate part of the taxes absorbed by that period. Thus, if the taxes have been paid for one year and the fiscal period covers only one month, one-twelfth of the amount paid would be credited to this account at the close of the period. The *balance* shows the amount of taxes paid in advance. It is shown on the Balance Sheet as one of the Deferred Charges to Operations.

NOTE. In a manufacturing business where the cost periods are for one month and the taxes are distributed over the various factors according to the value of the property, one-twelfth of the amount paid for taxes is used on the distribution sheet. Since taxes are one of the manufacturing expense costs, it is necessary to distribute this over the various factors in order to ascertain the machine hour cost. The accrued taxes are distributed the same as taxes that have been paid.

BUILDING EXPENSE.

§ 349. **The Object of this Account** is to show the cost of rent, heat, light, water, soap and towels, and other incidental expenses in the up-keep of the building. If the company owns its own home, the interest on the investment, repairs, etc., would be a part of the building expense.

Debit Building Expense Account:	*Credit Building Expense Account:*
¶ 1. With amounts paid for rent, heat, light, water, soap and towels, etc., as explained.	¶ 2. With amounts received that reduce the cost of the charges on the debit side.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net cost of building expense. It is shown with the manufacturing accounts on the Profit and Loss statement.

¶ 4. *To Close the Building Expense Account.* When the journal entry to close the manufacturing accounts on the Profit and Loss statement has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink.

VOUCHERS PAYABLE ACCOUNT.

§ 350. **The Object of this Account** is to show the amount of unpaid vouchers, that is, the outstanding indebtedness of the business. It is kept when the voucher method of keeping books is used and takes the place of the Accounts Payable or Purchases Ledger account. When the voucher system of bookkeeping is used, no accounts are kept with creditors, since each voucher represents the amount due for the designated obligation.

Debit Vouchers Payable Account:

¶ 1. With the total amount of vouchers paid as shown by the vouchers payable column on the credit side of the cash book.

Credit Vouchers Payable Account:

¶ 2. With the amount of unpaid vouchers at the beginning of business.

¶ 3. With the total amount of vouchers issued, as shown by the vouchers payable column in the vouchers payable book.

¶ 4. *The Balance of this Account* shows the amount of the current indebtedness of the business. It is shown as a current liability on the Balance Sheet.

¶ 5. *To Close the Vouchers Payable Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When it is closed for this purpose, the balance, together with the date of closing and the amount are entered on the credit side, the account ruled with single and double red lines and footed with black ink. If closed direct, the entry is written with red ink; if closed by a journal entry, it is written with black ink.

PURCHASES DISCOUNT ACCOUNT.

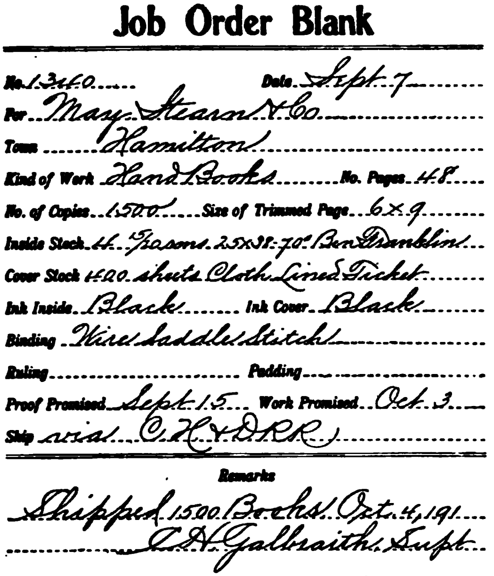
§ 351. **The Object of this Account** is to show the amount deducted for prompt payment of our obligations. It is *debited* for any adjustments that reduce the discount allowed us, and *credited* with the amount deducted for prompt payment of invoices, as indicated by the terms. The *balance* shows the net amount of discount deducted. In this set it is shown as a special income, and not as a reduction of the cost of merchandise purchased as in the preceding set. It is *closed* by the journal entry made to close the profit and loss accounts on the Profit and Loss statement.

FORMS REQUIRED IN A MANUFACTURING BUSINESS.

§ 352. **The Forms** required in a manufacturing business will depend largely upon the nature of the business and the information desired. Those necessary in every line of manufacturing business are, the production order, employee's daily time ticket, and requisition blank.

§ 353. **Production Order.** This order is the authority from the office to the superintendent or foreman to manufacture the articles described on it. It may be given different names in different lines of business, but it still remains a production order because no job can be manufactured until it has been authorized by this order. The information on the blank will depend entirely upon the nature of the business.

Illustration No. 117 shows the production order or, as it is termed, Job Order Blank, used in a printing business.



Job Order Blank

No. 1340 Date Sept 7
For May Stearn & Co
Town Hamilton
Kind of Work Hand Books No. Pages 48
No. of Copies 1500 Size of Trimmed Page 6×9
Inside Stock 4 Reams 25×38-70# Ben Franklin
Cover Stock 400 sheets Cloth Lined Ticket
Ink Inside Black Ink Cover Black
Binding Wire Saddle Stitch
Ruling Padding
Proof Promised Sept 15 Work Promised Oct 3
Ship via C H & D R R

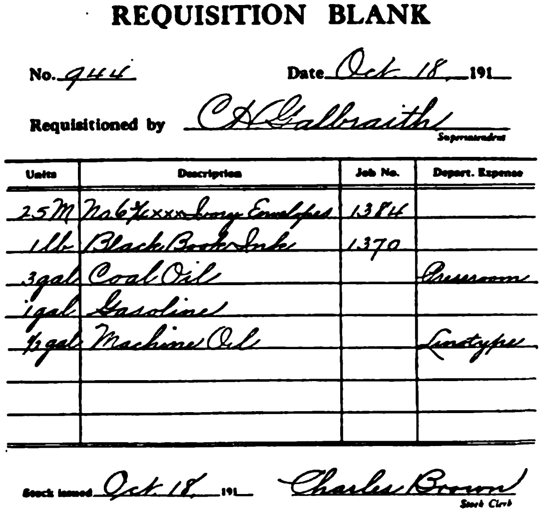
Remarks

Shipped 1500 Books Oct. 4, 191
C. A. Galbraith Supt

Illustration No. 117, Production Order.

EXPLANATION. Jobs are numbered consecutively as they are received. The date on which the ticket is made out is written after "Date;" the name of the person or firm for whom the work is being done and address are written on the next two lines. "Kind of Work" refers to the nature of the work to be done, that is, whether it is a book, pamphlet, loose sheets, envelopes, letterheads, etc.; "No. of Pages," books, catalogs or pamphlets; "No. of Copies," the quantity of work; "Size of Trimmed Page," the dimensions of the book, catalog, pamphlet, or sheet after it is completed; "Inside Stock," the size, weight and kind of stock to be used on jobs that do not require a cover, or for the inside of the book, catalog or pamphlet. "Cover Stock" refers to the stock to be used on the cover of books, catalogs, or pamphlets; "Ink Inside," the color and kind of ink to be used on inside stock, and "Ink Cover," ink used on cover stock; "Binding," the method of binding, whether hand sewed, machine sewed, wire stitched, etc.; "Ruling," those jobs only that require ruling, such as blank books, loose leaf sheets, ruled statements, etc.; "Padding," stock that is to be padded, such as tablets, billheads, statements, etc.; "Proof Promised," the date when the composing room work is to be completed and proof submitted for the approval of the one for whom the work is being done; "Work Promised," the date the work is to be completed (but like railroad schedules, the facts given here are subject to change without notice); "Ship," whether the finished goods are to be delivered, mailed, or sent by express or freight; "Remarks," the date and number delivered, or any other special information. Some printers use a more extensive production order, but the above gives all the information necessary and is recommended for practical use.

§ 354. **Requisition Order.** This order is the stock clerk's authority for delivering the materials necessary to complete an order. The object of the order is to transfer the materials from stock to the factory for use in completing orders. The requisition for stock is usually issued by the superintendent, foreman or an authorized clerk. The stock clerk is held responsible for all materials in the stock room and must prove his supplies just the same as the cashier proves his cash, hence



REQUISITION BLANK

No. 944 Date Oct 18 191
Requisitioned by C A Galbraith Superintendent

Units	Description	Job No.	Depart. Expense
25M	No 6¾ xxx Ivory Envelopes	1384	
1lb	Black Book Ink	1370	
3gal	Coal Oil		Pressroom
1gal	Gasoline		
½gal	Machine Oil		Linotype

Stock issued Oct 18 191 Charles Brown Stock Clerk

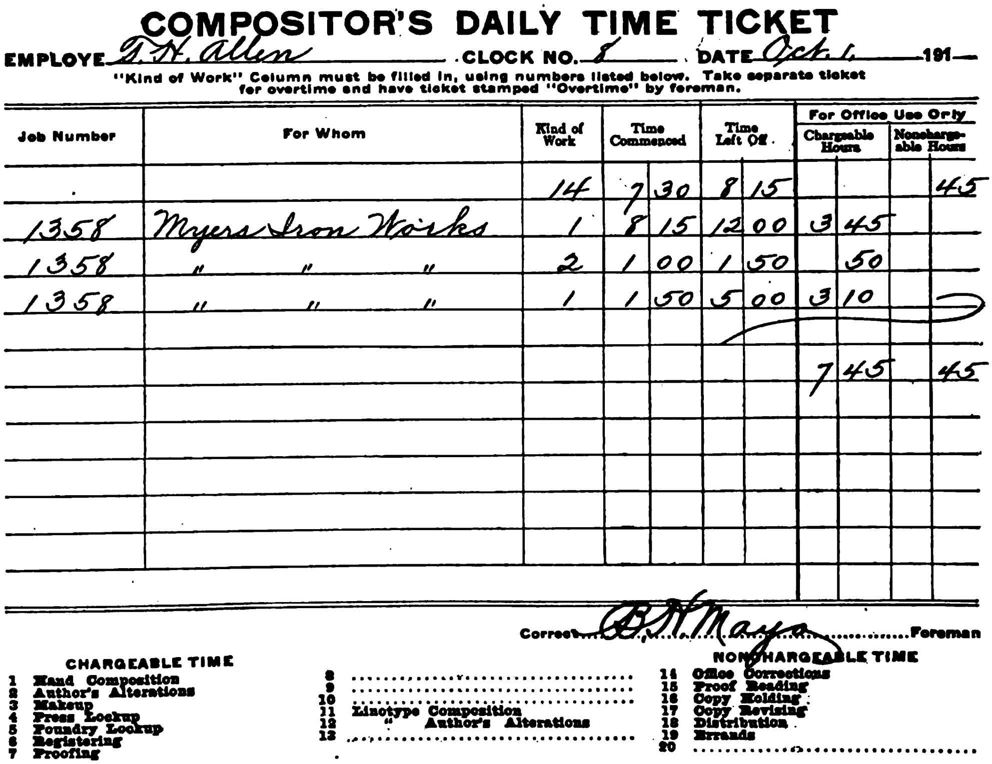
Illustration No. 118, Requisition Order.

EXPLANATION. "No." refers to the number of the requisition (requisitions are numbered consecutively as issued); "Date," the date the requisition is made; "Requisitioned by," the person who issued the requisition, usually the superintendent; "Units," the quantity, described by sheets, pounds, gallons, etc.; "Description," the kind of materials or supplies requisitioned; "Job No.," the number on the job order for which the requisition is issued, this number being entered by the stock clerk at the time he honors the requisition; "Depart. Expense," the name of the department for which factory supplies are requisitioned. At the bottom of the blank the stock clerk enters the date the requisition is honored, and signs his name.

the necessity for a written order when stock is needed in connection with a job. The form of requisition order will depend upon the nature of the business. Illustration No. 118 shows a popular form used in the printing business.

§ 355. **Employee's Daily Time Ticket.** At the end of the day each employee should render the office a statement of his time for the day. This statement which is made on a daily time ticket is checked with the clock record, and if it is correct, he is given credit on the time book for the number of hours worked. If a number of employees are engaged on one machine, the foreman in charge of the machine reports the time for all when he reports for the machine. The form of the time ticket depends upon the nature of the business.

Illustration No. 118 shows a time ticket for an employe in the composing room in a printing business, and Illustration No. 119, the time of a press in the pressroom for the same line of business.



COMPOSITOR'S DAILY TIME TICKET

EMPLOYE T. H. Allen .CLOCK NO. 8 . DATE Oct. 6 191—

"Kind of Work" Column must be filled in, using numbers listed below. Take separate ticket for overtime and have ticket stamped "Overtime" by foreman.

Job Number	For Whom	Kind of Work	Time Commenced		Time Left Off		For Office Use Only			
							Chargeable Hours		Nonchargeable Hours	
		14	7	30	8	15				45
1358	Myers Iron Works	1	8	15	12	00	3	45		
1358	" " "	2	1	00	1	50		50		
1358	" " "	1	1	50	5	00	3	10		
							7	45		45

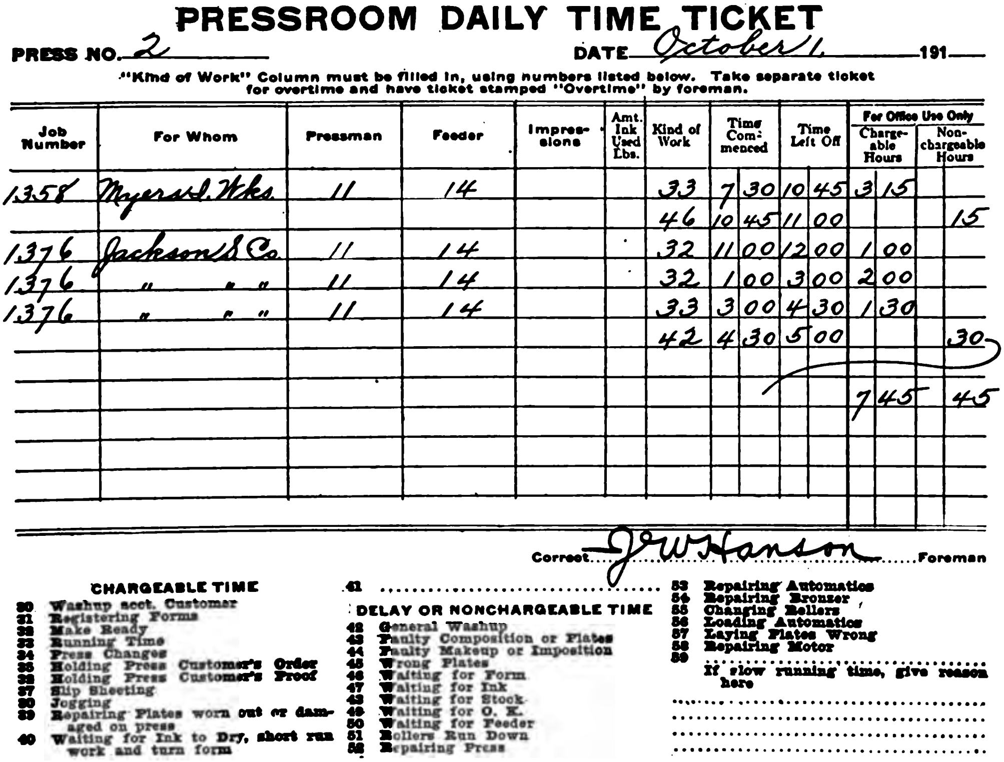
Correct B. H. Mayo Foreman

CHARGEABLE TIME
1 Hand Composition
2 Author's Alterations
3 Makeup
4 Press Lockup
5 Foundry Lockup
6 Registering
7 Proofing
8 ....
9 ....
10 ....
11 Linotype Composition
12 " Author's Alterations
13 ....

NONCHARGEABLE TIME
14 Office Corrections
15 Proof Reading
16 Copy Holding
17 Copy Revising
18 Distribution
19 Errands
20 ....

Illustration No. 119, Compositor's Daily Time Ticket.

EXPLANATION. "Employee" is for the name of the person doing the work (compositor); "Clock Number," the employee's number on the office time clock, each employee being required to register on the clock when he reports for work and leaves the factory; "Date," the date on which the work was done; "Job Number," the number of the job on the job order blank; "For Whom," the name of the person or firm for whom the work is being done; "Kind of Work," the nature of the work done as described by the numbers at the bottom of the blank; "Time Commenced," the hour and minute he began work on the job mentioned at the left; "Time Left Off," the hour and minute he quit work on this job. The cost clerk extends the chargeable and nonchargeable time into the two columns at the right. Hand composition, author's alterations, makeup, etc., are chargeable; that is, all the time done at this kind of work is charged to some job number. Office corrections, copy holding, etc., are nonchargeable and are not charged to a job number. A separate record is kept of the total of the chargeable and nonchargeable hours (§ 357).



PRESSROOM DAILY TIME TICKET

PRESS NO. 2 DATE October 1, 191

"Kind of Work" Column must be filled in, using numbers listed below. Take separate ticket for overtime and have ticket stamped "Overtime" by foreman.

Job Number	For Whom	Pressman	Feeder	Impressions	Amt. Ink Used Lbs.	Kind of Work	Time Commenced	Time Left Off	For Office Use Only	
									Chargeable Hours	Nonchargeable Hours
1358	Myers S. Wks	11	14			33	7 30	10 45	3 15	
						46	10 45	11 00		15
1376	Jackson & Co.	11	14			32	11 00	12 00	1 00	
1376	" " "	11	14			32	1 00	3 00	2 00	
1376	" " "	11	14			33	3 00	4 30	1 30	
						42	4 30	5 00		30
									7 45	45

Correct J W Hanson Foreman

CHARGEABLE TIME

30 Washup acct. Customer
31 Registering Forms
32 Make Ready
33 Running Time
34 Press Changes
35 Holding Press Customer's Order
36 Holding Press Customer's Proof
37 Slip Sheeting
38 Jogging
39 Repairing Plates worn out or damaged on press
40 Waiting for Ink to Dry, short run work and turn form

41 ....

DELAY OR NONCHARGEABLE TIME

42 General Washup
43 Faulty Composition or Plates
44 Faulty Makeup or Imposition
45 Wrong Plates
46 Waiting for Form
47 Waiting for Ink
48 Waiting for Stock
49 Waiting for O. K.
50 Waiting for Feeder
51 Rollers Run Down
52 Repairing Press
53 Repairing Automatics
54 Repairing Bronzer
55 Changing Rollers
56 Loading Automatics
57 Laying Plates Wrong
58 Repairing Motor
59 ....

If slow running time, give reason here

....

Illustration No. 120, Pressroom Daily Time Ticket.

EXPLANATION. "Press No." refers to the number which was given the press at the time it was purchased, and by which it is described in the inventory book; "Date," the day the work was done; "Job No.," the number of the job on which the presswork was done, this being the number on the job order blank; "For Whom," the person or firm for whom the work is being done; "Pressman," the clock number of the person who has charge of the press; "Feeder," the clock number of his assistant; "Impressions," the number of sheets printed; "Amt. of Ink Used," the number of pounds of ink required; "Kind of Work," the work done as described by the numbers at the bottom of the ticket; "Time Commenced," the hour and minute on which the work was begun; "Time Left Off," the hour and minute on which the work was discontinued. The chargeable and nonchargeable hours are indicated by the kind of work done. The total record of chargeable and nonchargeable hours is kept in a special book.

The cost clerk extends the chargeable and nonchargeable time into the two columns at the right. Two persons are required to operate a cylinder press, one the pressman who has charge of the press, and the other the feeder who feeds the sheets to be printed. Each employee will receive credit for his time in the time book, but the job will be charged with the time of the press only.

§ 356. **Forms for Supplementary Record.** Supplementary forms are provided for special information to avoid burdening the regular cost system with too many details. The kind of forms used will depend upon the nature of the business. The Hour Record Sheet is the only supplementary record required in this set. In a well-regulated print shop many other supplementary forms may be used to advantage. These will include forms showing the number of impressions, name of each press, cost per thousand ems of setting type, both hand and machine, time required for "make ready" on the different sized forms, time required for distributing type, etc.

§ 357. **Hour Record Sheet.** The object of this form is to keep a record of the chargeable and nonchargeable time reported on the time tickets. The time for each factor is shown separately because the manufacturing expense is distributed according to the number of chargeable hours produced in the factors. The cost clerk extends the chargeable and nonchargeable time for each time ticket into the columns at the right, and charges each job in the job cost ledger with the chargeable time, and transfers the total of all the chargeable and nonchargeable hours to the hour record sheet. The record in this book should be proved at least twice during each cost period, that is, about every two weeks, as a cost period should not extend over one month. The total number of chargeable hours in each factor equals the total number of hours charged in that factor to jobs in the job cost ledger. This not only indicates that the record on the hour record sheet is correct, but also that all chargeable time has been charged to a job. It is not necessary to prove the nonchargeable time, but this may be done if desired. Idle time, that is, time lost while waiting for work, should be recorded and shown in a separate record.

HOUR RECORD SHEET.

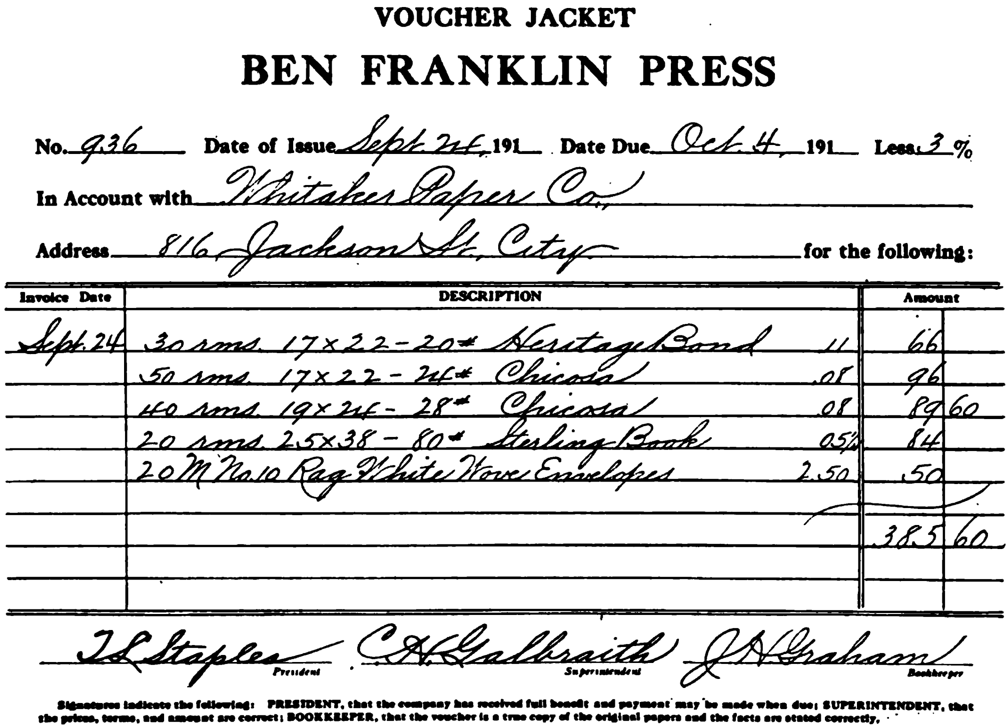
Date		Hand Compo		Machine Compo		Cylinder Presses		Job Presses		Stockroom		Bindery Hand		Bindery Mach	
		Chargeable	Non-chargeable	Chargeable	Non-chargeable	Chargeable	Non-chargeable	Chargeable	Non-chargeable	Chargeable	Non-chargeable	Chargeable	Non-chargeable	Chargeable	Non-chargeable
Oct.	1	37 30	5 00	8 00	30	31 45	2 15	23 45	1 45	6 00	2 30	34 00		42 30	
	2	36 50	5 40	7 30	1 00	30 50	3 10	24 00	1 30	6 30	2 00	34 00		42 30	
	3	34 45	7 45	8 00	30	30 50	3 10	21 16	4 20	7 00	1 30	51 00		32 30	1 30

Illustration No. 121, Hour Record Sheet, Cost Accounting Set.

EXPLANATION. The time shown in each column refers to the time reported on the time tickets. If more than one employee is required to operate a machine, the time of the machine and not of each employee is entered. Group the tickets for each factor, list, and add the total time for each. An adding machine is very convenient for this work. The entry is made in this book after each job in the job cost ledger has been charged with the chargeable time.

§ 358. **Voucher Jacket.** This is a form used in connection with the voucher method of keeping books. It is an office record of all the facts relative to the transaction for which the check is given in payment. It is not sent with the check to be receipted, but is signed by the proper persons in the office as evidence of its correctness. The record of the transaction is complete when the canceled check has been filed with the voucher. If it is desired, all the papers affecting the transaction may also be filed in the jacket, but this is not best, because too many papers would make the record cumbersome. The voucher jacket is better than a voucher, because it does not expose office secrets to outside parties, and is more convenient for the bank. Illustration No. 122 shows the inside of the voucher jacket, No. 124 the outside of the voucher jacket, No. 123 the front, and No. 124a the back of the canceled check given in payment.

§ 359. **Job Cost Sheet.** The object of this form is to show the manufacturing cost of each job or process. These sheets are usually made to fit a loose leaf binder, and when filed in it are referred to as the job cost ledger. A job cost sheet is made out at the time the order is received, and it is given the same number as the job order blank. Illustration No. 130 shows a job cost sheet used in the printing business.



VOUCHER JACKET

BEN FRANKLIN PRESS

No. 936 Date of Issue Sept. 26, 191 Date Due Oct. 4, 191 Less 3 %

In Account with Whitaker Paper Co.,

Address 816 Jackson St., City for the following:

Invoice Date	DESCRIPTION		Amount	
Sept. 24	30 rms. 17×22-20# Heritage Bond	11	66	
	50 rms. 17×22-24# Chicosa	.08	96	
	40 rms. 19×24-28# Chicosa	.08	89	60
	20 rms. 25×38-80# Sterling Book	.05¼	84	
	20 M No. 10 Rag White Wove Envelopes	2.50	50	
			385	60

T. L. Staples, President — C. H. Galbraith, Superintendent — J. H. Graham, Bookkeeper

Signatures indicate the following: PRESIDENT, that the company has received full benefit and payment may be made when due; SUPERINTENDENT, that the prices, terms, and amount are correct; BOOKKEEPER, that the voucher is a true copy of the original papers and the facts are stated correctly.

Illustration No. 122, Inside of Voucher Jacket.

EXPLANATION. "No." refers to the number of the voucher, (vouchers are numbered in consecutive order); "Date of Issue," the date the voucher was made out; "Date Due," the date on which check must be written in payment of the amount; "Less ..%," the discount that may be deducted by sending remittance on the date mentioned; "In Account with," the name of the person or firm in whose favor the check is to be written; "Address," the street number, city and state; "Invoice Date," the date of the invoice if the voucher is for a purchase represented by an invoice; "Description," the articles mentioned in the invoice, or the reason for the payment; "Amount," the cost of each item and the total. The reason for the signatures at the bottom is given in the information just below them. If the president's signature certifies that the payment is made for the benefit of the company, the superintendent's, that the prices, terms and amount are correct, and the bookkeeper's, that the information given is correct according to the original entry, and the person who receives the check, accepts it in payment of the same items as those described in the voucher jacket, it is quite evident that the entire transaction must be correct.

BEN FRANKLIN PRESS
"We Print and We Bind"

No. 1 October 3, 191

The Merchants National Bank

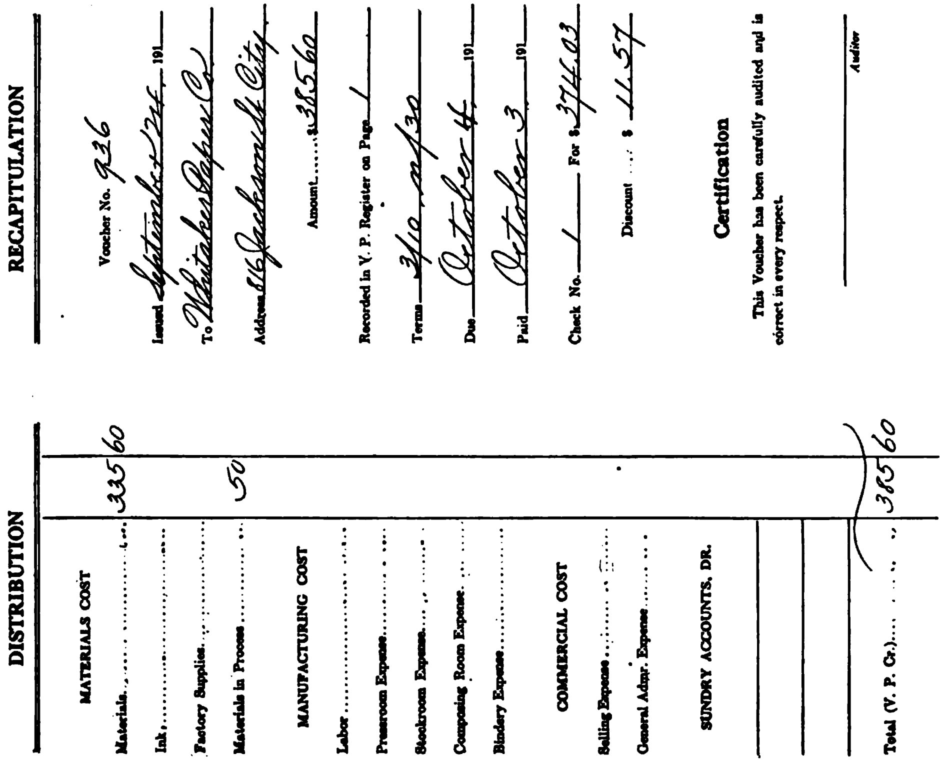
Pay to the order of Whitaker Paper Co. $374.03

Three Hundred Seventy-four and 03/100 Dollars

Ben Franklin Press

By J. H. Graham

Illustration No. 123, The Front of a Canceled Check.



RECAPITULATION

Voucher No. 936

Issued September 24 191

To Whitaker Paper Co

Address 816 Jackson St City

Amount......$ 385.60

Recorded in V. P. Register on Page 1

Terms 3/10, n/30

Due October 4, 191

Paid October 3, 191

Check No. 1 For $ 374.03

Discount ... $ 11.57

Certification

This Voucher has been carefully audited and is correct in every respect.

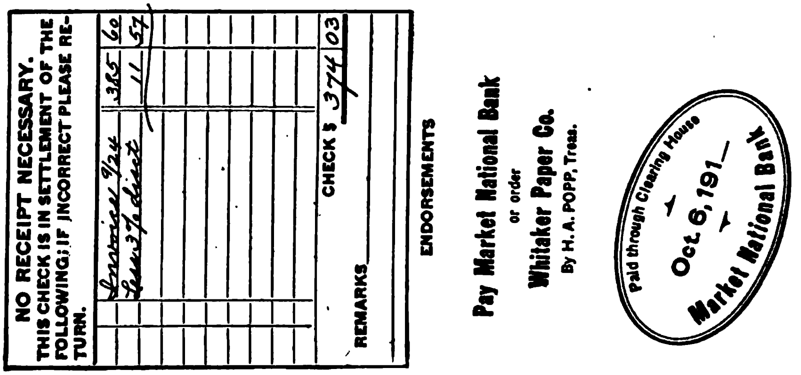
Auditor

DISTRIBUTION

MATERIALS COST		
Materials..........	335	60
Ink..........		
Factory Supplies..........		
Materials in Process..........		50
MANUFACTURING COST		
Labor..........		
Pressroom Expense..........		
Stockroom Expense..........		
Composing Room Expense..........		
Bindery Expense..........		
COMMERCIAL COST		
Selling Expense..........		
General Admr. Expense..........		
SUNDRY ACCOUNTS, DR.		
Total (V. P. Cr.)..........	385	60

Illustration No. 124, Outside of Voucher Jacket.

EXPLANATION. Distribution: "Materials Cost" refers to the purchased items described in the inside; "Manufacturing Cost," payments for labor or expenses in connection with operating the manufacturing department; "Commercial Cost," the office cost, consisting of the selling expense or cost of selling the goods, and general administrative expense, or cost of conducting the office; "Sundry Accounts, Dr.," any accounts not provided for in the above list. The total amount at the bottom must be the same as the total of the amount column on the inside. Recapitulation: this contains a brief statement of the facts outlined on the inside of the voucher jacket, which includes the number, date issued, to whom issued, amount entered in the vouchers register, terms, when due less discount, when and how paid, and the discount, if any. The signature of the auditor certifies the correctness of the information given in the voucher jacket.



NO RECEIPT NECESSARY.
THIS CHECK IS IN SETTLEMENT OF THE FOLLOWING; IF INCORRECT PLEASE RETURN.

		Invoice 9/24	385	60
		Less 3% disct	11	57
		CHECK $	374	03

REMARKS

ENDORSEMENTS

Pay Market National Bank
or order
Whitaker Paper Co.
By H. A. POPP, Treas.

Paid through Clearing House
Oct. 6, 191
Market National Bank

Illustration No. 124a, Back of Canceled Check.

BOOKS OF ACCOUNT.

The Books of Original Entry used in this set consist of the journal, cash book, vouchers payable (purchases) book, and sales book. Entries in these books are posted to the general ledger or sales ledger. The auxiliary books consist of the requisition journal, job cost ledger, materials ledger, distribution record and time book.

§ **360. Journal.** Transactions which can not be recorded in the cash book, sales book, or vouchers payable book are entered in the journal. It is also used for adjusting and closing entries at the close of the fiscal period. The usual journal ruling is used, hence no illustration is given.

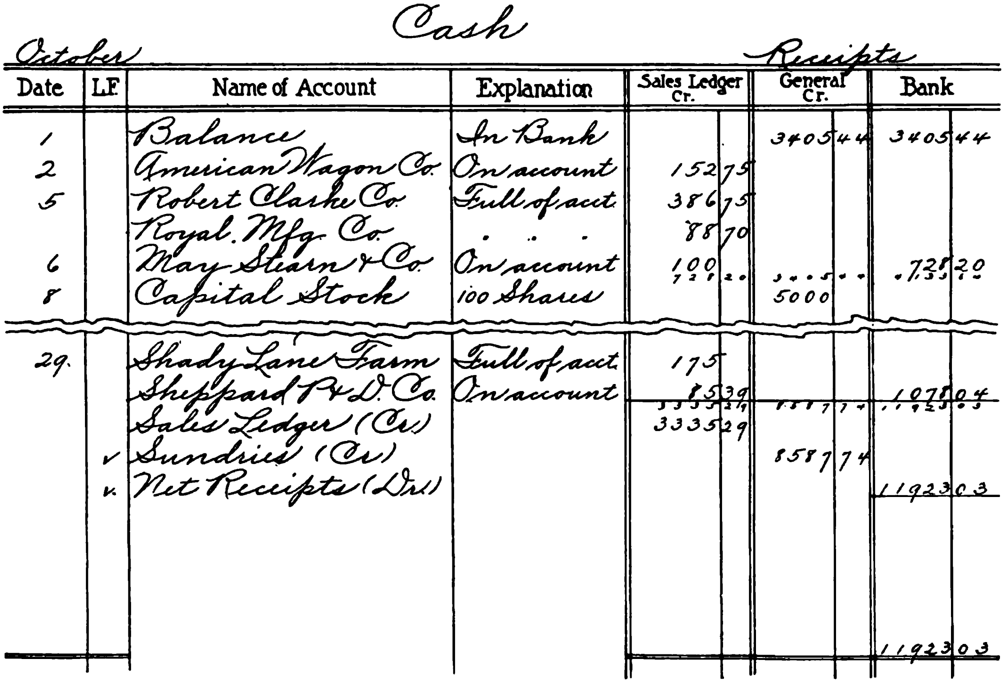
§ **361. Cash Book.** This contains a record of all cash received and paid, receipts being entered on the debit side and payments on the credit side. Illustrations Nos. 125 and 126 show the form of ruling and method of recording transactions.

¶ 1. *To Prove Cash.* The total of the first and second columns on the debit side equals the total of the third column. The difference between the first and second columns on the credit side equals the total of the third column. The difference between the total of the third columns on each side is the cash balance. This is the same as the balance shown by the check stub, if all cash has been deposited. All cash received is deposited in the bank and all payments are made by check, hence the third column on the debit side shows the receipts and the third column on the credit side the payments.

¶ 2. *To Post from the Cash Book.* Each amount entered in the first column on the debit side is posted to the credit side of the account in the sales ledger written on the same line with it. Each amount entered in the second column on the debit side is posted to the credit side of the account in the general ledger written on the same line with it. Amounts entered in the third column are not posted. At the end of the month the total of the first column is posted to the credit of the Sales Ledger account in the general ledger; the total of the second column is not posted; the total of the third column is not posted unless a Cash account is kept in the ledger.

Amounts entered in the first, second or third columns on the credit side are not posted. At the end of the month the total of the first column is posted to the debit side of the Vouchers Payable account; the total of the second column is posted to the debit side of the Purchases Discount account; the total of the third column is not posted unless a Cash account is kept in the ledger.

§ **362. Voucher.** A voucher is a business form that acknowledges receipt of money, materials, fixtures, and other property, or services purchased by the business. It differs from a receipt in that it gives more detailed information and, when used in connection with the voucher system of bookkeeping, constitutes a part of the records. The voucher may be made a part of the check given in payment for the obligation, or it may be made separate. If it is separate from the check, it may be sent with the check and signed by the person who receives the money, or retained as a voucher jacket and filed with the canceled check. When it is used as a voucher jacket, all the business papers in connection with the transaction may be filed with it, but it is not best to do this because it requires too much space in the files. If the description of the articles on the voucher corresponds with the description on the check, this is sufficient information for the auditor. Illustration No. 122 shows the inside and No. 124 the outside of a voucher jacket. Illustrations Nos. 123 and 124a show both sides of the canceled check given in payment of this voucher.



Cash

October

Receipts

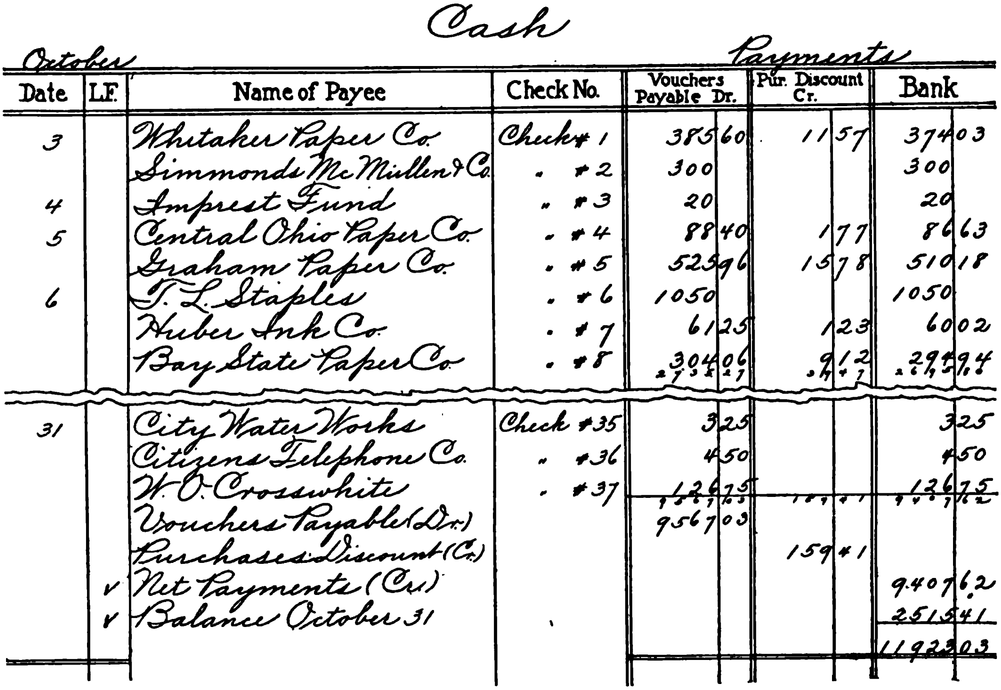
Date	LF	Name of Account	Explanation	Sales Ledger Cr.	General Cr.	Bank
1		Balance	In Bank		3405 44	3405 44
2		American Wagon Co.	On account	152 75		
5		Robert Clarke Co.	Full of acct.	386 75		
		Royal. Mfg. Co.	" " "	88 70		
6		May Stearn & Co.	On account	100 728 20	3405 44	728 20 4133 64
8		Capital Stock	100 Shares		5000	
29.		Shady Lane Farm	Full of acct.	175		
		Sheppard P & D. Co.	On account	85 39 3335 29	8587 74	1078 04 11923 03
		Sales Ledger (Cr.)		3335 29		
	✓	Sundries (Cr.)			8587 74	
	✓	Net Receipts (Dr.)				11923 03
						11923 03

Illustration No. 125, Debit Side of the Cash Book, Cost Accounting Set.

EXPLANATION. When cash is received from a customer on account or in full of account it is entered in the first column. If the cash is received from any other source except customers, the amount is entered in the second column. When a deposit is made, the amount deposited is entered in the third column. In this set no discount is allowed customers; if discount is allowed, an additional column would be necessary.

§ 363. **Voucher Method of Keeping Books.** When the voucher jacket is used, as explained in § 358, and shown in Illustrations Nos. 122 and 124, the method of keeping the record of purchases of property and services is known as the *Voucher Method of Bookkeeping*. This has reference to the purchases only, and does not affect the method of recording other transactions. It is very satisfactory, especially in a manufacturing business, as the distribution of the various purchases may be made and the proper accounts or factors charged at the time the obligation is made. The voucher method of keeping books may be used to an advantage in a trading business, especially if a number of sales departments are maintained.

§ 364. **Vouchers Payable Book.** The object of this book is to keep a record of vouchers issued and paid. When the voucher system of keeping books is used, it takes the place of the purchases book and the special columns in the cash book, because the distribution is made in this book. If it is desired, accounts may be opened in the purchases ledger with each person from whom property is purchased on time; but this is not necessary unless the business is extensive, or unless it is desired to keep a record of the purchases from each creditor. Columns are provided for the accounts affected by the purchases of property and service, and one special column for accounts for which no column is provided. If there are a



Cash

October — Payments

Date	L.F.	Name of Payee	Check No.	Vouchers Payable Dr.	Pur. Discount Cr.	Bank
3		Whitaker Paper Co.	Check #1	385 60	11 57	374 03
		Simmonds McMullen & Co.	" #2	300		300
4		Imprest Fund	" #3	20		20
5		Central Ohio Paper Co.	" #4	88 40	1 77	86 63
		Graham Paper Co.	" #5	525 96	15 78	510 18
6		T. L. Staples	" #6	1050		1050
		Huber Ink Co.	" #7	61 25	1 23	60 02
		Bay State Paper Co.	" #8	304 06	9 12	294 94
31		City Water Works	Check #35	3 25		3 25
		Citizens Telephone Co.	" #36	4 50		4 50
		W. O. Crosswhite	" #37	126 75		126 75
		Vouchers Payable (Dr.)		9567 03		
		Purchases Discount (Cr.)			159 41	
	✓	Net Payments (Cr.)				9407 62
	✓	Balance October 31				2515 41
						11923 03

Illustration No. 126, Credit Side of the Cash Book, Cost Accounting Set.

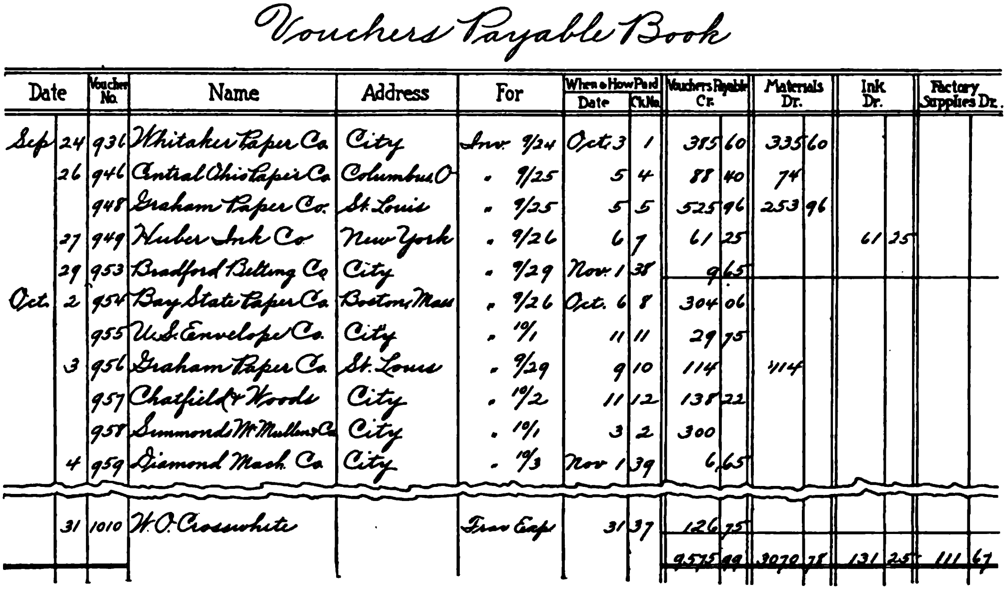
EXPLANATION. All payments are made by check. Each payment is represented by a voucher, and the amount of the voucher is entered in the first column. If the vouchers are issued for an invoice subject to discount, the amount of the discount is entered in the second column. The amount of each check is entered in the third column.

number of departments, factors, or expense accounts, one column may be used for each account, and the ledger page used to indicate the particular account affected. This will avoid a wide book of numerous columns.

A voucher jacket is filled out at the time property or services are purchased either on account or for cash. The account or accounts affected are indicated on the outside of the voucher jacket in the space provided for distribution. The total of the amounts which affect the various accounts must equal the total of the invoice or obligation. When this has been proved to be correct, the entry is made in the vouchers payable book, the amounts being entered in the columns indicated in the distribution. The amount entered in the vouchers payable column must be the same as the total of the amounts entered in all of the other columns. See Illustration No. 127.

If the obligation is due and is to be paid at once, a check is issued and the voucher filed with paid vouchers. If the obligation is not to be paid until later, the voucher is filed with unpaid vouchers under the date on which it is to be paid. When a check is issued in payment for a voucher which is filed with unpaid vouchers, it must be removed at once and placed with paid vouchers. When the canceled check has been returned from the bank, it is filed with the voucher, and thus the record is completed.

¶ 1. *To Post from the Vouchers Payable Book.* No amounts are posted from any of the columns except the "Amount" column at the extreme right. This col-



Vouchers Payable Book

Date		Voucher No.	Name	Address	For	When & How Paid		Vouchers Payable Cr.	Materials Dr.	Ink Dr.	Factory Supplies Dr.
						Date	Ck No.				
Sep	24	936	Whitaker Paper Co.	City	Inv. 9/24	Oct. 3	1	385 60	335 60		
	26	946	Central Ohio Paper Co.	Columbus, O.	. 9/25	5	4	88 40	74		
		948	Graham Paper Co.	St. Louis	. 9/25	5	5	525 96	253 96		
	27	949	Huber Ink Co.	New York	. 9/26	6	7	61 25		61 25	
	29	953	Bradford Belting Co.	City	. 9/29	Nov. 1	38	9 65			
Oct.	2	954	Bay State Paper Co.	Boston, Mass.	. 9/26	Oct. 6	8	304 06			
		955	U. S. Envelope Co.	City	. 10/1	11	11	29 75			
	3	956	Graham Paper Co.	St. Louis	. 9/29	9	10	114	114		
		957	Chatfield & Woods	City	. 10/2	11	12	138 22			
		958	Simmonds McMullen Co.	City	. 10/1	3	2	300			
	4	959	Diamond Mach. Co.	City	. 10/3	Nov. 1	39	6 65			
	31	1010	W. O. Crosswhite		Trav. Exp.	31	37	126 75			
								9575 99	3070 78	131 25	111 67

Illustration No. 127, Left Page of Vouchers Payable Book, Cost Accounting Set.

EXPLANATION. The columns in the illustration are described as follows: first, the date the voucher was issued; second, the number of the voucher; third, the name of the person or firm from whom the property was purchased and to whom the check is to be made payable; fourth, the address; fifth, the date of the invoice; sixth, when and how paid; this space is left blank until the check is issued; seventh, the check number; eighth, the amount of the invoice; ninth, the value of materials purchased for stock; tenth, the value of ink purchased; eleventh, the value of factory supplies (oil, wastes, wire, etc.) purchased; twelfth, value of materials purchased for jobs in process and not placed in stock; thirteenth, amounts paid for labor, including superintendent, foremen and factory employes; fourteenth, fifteenth, sixteenth and seventeenth columns, amounts paid for direct department expense, including repairs, etc.; eighteenth, amounts paid as selling expense; nineteenth, amounts paid as general administrative expense; twentieth, amounts paid and charged to special accounts; twenty-first, name of the accounts not represented by a column. The small letters at the left of the amounts entered in departmental expense columns indicate the factor.

umn is for accounts that are not represented by a special column, hence each amount in it is posted to the debit side of the account written at the right on the same line with it. At the end of the month the Vouchers Payable account is credited for the total of the first column, and each account written at the top of the other columns is debited with the total of the column. Before posting, the final results should be proved, that is, the total of all the columns to the right of the vouchers payable column should equal the total of the vouchers payable column.

§ 365. **Sales Book.** The object of this book is to keep a record of all cash and credit sales. As a rule, there will be very few cash sales in a manufacturing business where goods are made to order, because no customer cares to pay for a job before it is completed. The sales book contains columns for the selling price, materials cost, labor, manufacturing expense cost in each department, and the cost of materials sold out of stock. Illustration No. 128 shows the form used

Vouchers Payable Book

Materials in Process Dr	Labor Dr.	Pressroom Expense Dr.	Stockroom Expense Dr	Compo. Room Expense Dr.	Bindery Expense Dr.	Selling Expense Dr.	Gen'l Admr. Expense Dr.	Sundry Accounts Dr.		
								Amount	Name of Account	L.F.
50										
14 40										
272										
		c. 3 50			m. 6 15					
304 06										
29 75										
138 22										
								300	Insurance	
		c. 4 00			m. 2 65					
						126 75				
1945 22	1528 10	19 50	49 60	20 50	10 60	236 25	492 60	1656 92		

Illustration No. 127, Right Page of Vouchers Payable Book, Cost Accounting Set.

Sales Book

Date	LF	Job No.	Name of Customer	Sales Ledger Dr	Materials in Process Cr	Pressroom Time Cr.	Compo. Room Time Cr.	Stockroom Time Cr.	Bindery Time Cr.	Materials Cr.
Oct 4		1340	May-Stearn & Co. Hamilton	391 53	52 26	29 12	213 22	7 91	14 22	
5		1336	Johnson Bros & Co. City	211 34	5 13	23 94	79 61	3 54	59 31	
6		1380	Shady Lane Farm, Cheviot	100	66 68	27 00	8 42	4 80		
10		1379	Adams Express Co. City	78 73	29 75	27 64	5 95	2 27		
		1384	Central Bus. College, City	75	37	22 96	1 02	1 52		
11			C. J. Krehbiel & Co. City	43 20						38 40
30		1398	Busy Bee Dept. Store, City	101 99	25 50	38 69	15 50	5 30		
				5933 95	1491 29	956 20	1255 59	106 89	950 70	182 90

Illustration No. 128, Sales Book, Cost Accounting Set.

EXPLANATION. The first money column is for the selling price of the goods manufactured and sold; second, the cost of materials in process; third, the pressroom cost; fourth, composing room; fifth, stockroom; sixth, bindery; and seventh, materials sold. When a job is completed, the customer is charged with the selling price, the amount of which is entered in the first column. The various costs of producing a job are entered in the proper columns, these costs being obtained from the record in the job cost ledger. Since the cost of each job is made up of the materials, pressroom, composing room, stockroom and bindery costs, the cost of each department is entered in these columns. If materials are sold out of stock, the customer is charged at the selling price in the first column, and the cost price of the materials entered in the materials column. If no account is kept with materials in process, the materials column would be all that is necessary, but where this account is maintained, both columns are needed. The columns at the left are for the date the order was billed, the page of the customer's account in the sales ledger, the job order number, and customer's name and address. The description of the sale need not be given in this book, because a record of this is shown in the job cost ledger.

¶ 1. *To Post from the Sales Book.* Each amount entered in the first column is posted to the debit side of the customer's account, in the sales ledger, written on the same line with it. Amounts entered in the other columns are not posted except at the end of the month. The columns are ruled and footed at the end of the month as shown in Illustration No. 128, and the totals posted to the general ledger. The Sales Ledger account is debited with the total of the first column, and the Sales account credited with the same amount. The Materials in Process account is credited with the total of the second column; Pressroom time, the third; Composing Room Time, the fourth; Stockroom Time, the fifth; Bindery Time, the sixth; and Materials, the seventh. The Cost of Sales account is debited with the amount of the totals of the second, third, fourth, fifth, sixth, and seventh columns; each may be posted separately, or added and posted in one amount.

§ 366. Requisition Journal. The object of this book is to keep a record of all requisitions issued for materials, ink or factory supplies. These articles are in charge of the stock clerk who will not issue them without a requisition. The requisition journal is really an abstract of the requisitions issued, the object being to facilitate posting the totals at the end of the month. The number of columns will depend upon the supplies requisitioned and the factors affected. See Illustration No. 129.

Requisition Journal

Date	Req No.	Job No.	Name or Description	Materials in Process Dr.	Materials Cr.	Ink Cr.	Factory Supplies Dr.	Pressroom Expense Dr.	CompoRoom Expense Dr.	Bindery Expense Dr.
Oct. 1	939	1370	South-Western Publishing Co	59 52	59 52					
2	940	1380	Shady Lane Farm	66 68	64 68	2				
		1378	Jordan & Mayes	5		5				
3	941	1381	American Wagon Co.	13 10	12 60	50				
		1376	Jackson Stove Co.	8 50		8 50				
			Ink for Job Presses			12 50	12 50	p. 12 50		
			Wire for Stitchers							m. 1 81
29	954	1408	Ben Franklin Press	37 50	37 50					
		1404	Wm Powell Co.	50		50				
				1170 77	1142 65	61 25	30 13	37 57	4 07	38 62

Illustration No. 129, Requisition Journal, Cost Accounting Set.

EXPLANATION. The first column is for the date of the requisition, that is, the date the stock is issued; second, the No. of the requisition, these being entered in regular order; third, the number of the job in the job cost ledger for which the stock is requisitioned; fourth, the name of the person for whom the job is being done, or the description of the property; fifth, the value of the materials that is to be charged to an order in process of manufacture; sixth, the cost value of the stock requisitioned that was charged to the Materials account when purchased; seventh, for the cost value of ink requisitioned, which was charged to the Ink account when purchased; eighth, the cost value of materials and ink requisitioned from stock to be used as factory supplies in the different departments; ninth, tenth and eleventh, the three departments for which factory supplies, materials or ink may be requisitioned. Amounts entered in the first money column are for materials requisitioned from the materials stock, and for ink requisitioned from the ink stock to be charged to a job in process; hence the amount entered in the first column must be the same as the amount entered in the second column, or the total of the amounts entered in the second and third columns on the same line with it. The fourth money column is necessary because materials are sometimes requisitioned from stock and used as factory supplies. The small letters indicate the factors.

The stock clerk keeps a record of all requisitions issued, which should correspond with the record made in the office. The requisition blanks are placed on file in the office, hence the description of the articles requisitioned is not necessary, though this may be indicated for convenience if desired.

¶ 1. *To Post from the Requisition Journal.* Amounts entered in the first column are not posted until the end of the month. Amounts entered in the second and third columns are posted to the job cost ledger unless they are for factory supplies. No amounts are posted from the fourth, fifth, sixth and seventh columns. At the end of the month Materials in Process is debited with the total of the first column; Materials, credited with the total of the second column; Ink, credited with the total of the third column; Factory Supplies, debited with the total of the fourth column; Pressroom Expense, debited with the total of the fifth column; Composing Room Expense, debited with the total of the sixth column; Bindery Expense, debited with the total of the seventh column, and Factory Supplies credited with the total of the last three expense columns.

§ 367. **General Ledger.** This book contains the capital, factory, income, operating and controlling accounts. The factory accounts should be kept in a separate part of the ledger. No special ruling is necessary. The Trial Balance is made from the general ledger and the controlling accounts are proved by the entries in the auxiliary ledger.

§ 368. **Sales Ledger.** The object of this ledger is to contain accounts with all customers. Each customer is charged with the amount of his purchase and credited with the payments just as if the accounts were kept in the general ledger. A controlling account is kept in the general ledger which shows the totals of the debits and credits of the individual accounts in the sales ledger. The total of all the balances of the accounts in the sales ledger must be the same as the balance of the controlling account in the general ledger.

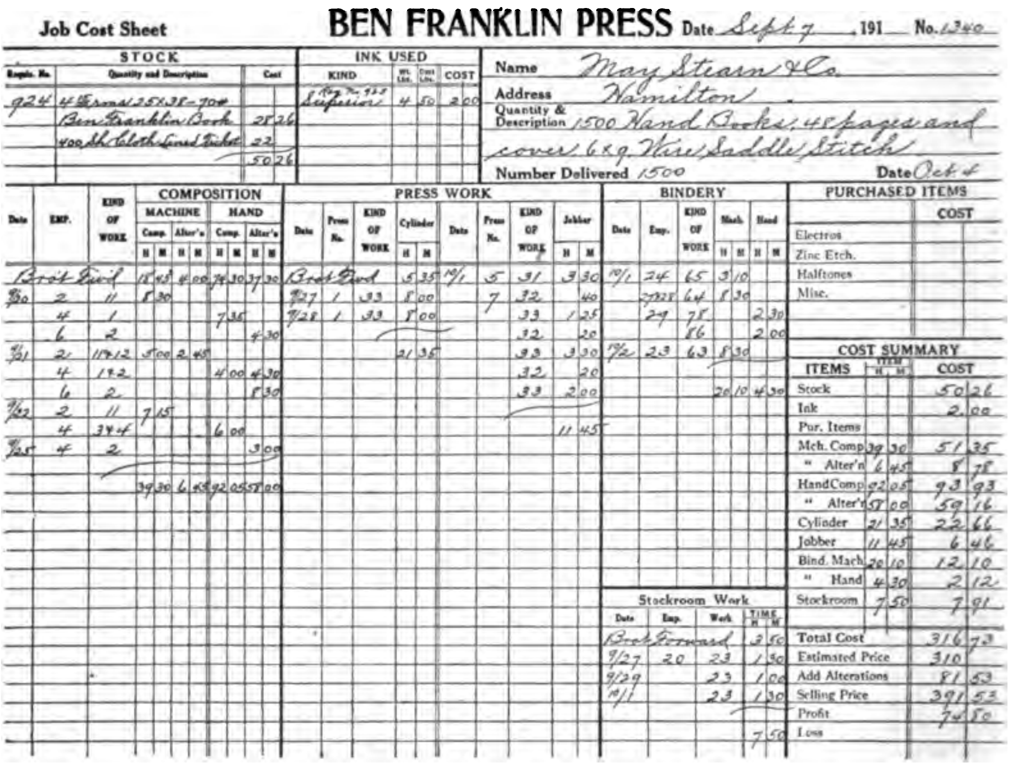
§ 369. **Materials Ledger.** The object of this book is to keep a record of the number of units of each kind of materials purchased and used. An account is kept with each kind of materials. When materials of this kind are received, the number of units is entered in the "Received" column; when they are issued on requisition, the number of units is entered in the "Used" column. The balance of the accounts must agree with the balance on hand in stock. This multiplied by the cost per unit will give the cost of all units on hand. The total of the costs of all the different kinds of units should equal the balance of the Materials account in the general ledger. Illustration No. 130 shows a form used in the printing business.

CHICOSA FLAT WRITING

17x22—24 lb.					19x24—28 lb.					22x34—40 lb.				
Received			Used		Received			Used		Received			Used	
Date	Price	Sheets	Date	Sheets	Date	Price	Sheets	Date	Sheets	Date	Price	Sheets	Date	Sheets
Oct. 1	.08	30250	Oct. 1	15500	Oct. 1	.08	27500	Oct. 15	37500	Oct. 6	.08	20000		
17	.08	1500	11	10000	13	.08	25000							

Illustration No. 130, Materials Ledger, Cost Accounting Set.

§ 370. Job Cost Ledger. The object of this ledger is to keep a record of the cost of each job that is manufactured. It is necessary for the management to have a record of the cost of each job as well as the total cost of all jobs. The form of ruling in this book will depend entirely upon the nature of the business. A loose leaf ledger is best because it permits sheets for completed jobs to be filed in a permanent binder. Illustration No. 131 shows the job cost sheet for a printing business.



Job Cost Sheet

BEN FRANKLIN PRESS Date Sept 7 191_ No. 1340

Name May Stearn & Co.
Address Hamilton
Quantity & Description 1500 Hand Books, 48 pages and cover 6×9 Wire Saddle Stitch
Number Delivered 1500 Date Oct 4

STOCK			
Requis. No.	Quantity and Description	Cost	
924	4 Reams 25×38-70#		
	Ben Franklin Book	28	26
	400 Sh. Cloth Lined Ticket	22	
		50	26

INK USED				
KIND	Wt. Lbs.	Cost Lbs.	COST	
Reg. No. 923 Superior	4	50	2	00

COMPOSITION										
			MACHINE				HAND			
			Comp.		Alter's		Comp.		Alter's	
Date	Emp.	Kind of Work	H	M	H	M	H	M	H	M
Brot Fwd			18	45	4	00	74	30	37	30
9/20	2	11	8	30						
	4	1					7	35		
	6	2							4	30
9/21	2	11&12	5	00	2	45				
	4	1&2					4	00	4	30
	6	2							8	30
9/22	2	11	7	15						
	4	3&4					6	00		
9/25	4	2							3	00
			39	30	6	45	92	05	58	00

PRESS WORK									
			Cylinder					Jobber	
Date	Press No.	Kind of Work	H	M	Date	Press No.	Kind of Work	H	M
Brot Fwd			5	35	10/1	5	31	3	30
9/27	1	33	8	00		7	32		40
9/28	1	33	8	00			33	1	25
							32		20
			21	35			33	3	30
							32		20
							33	2	00
								11	45

BINDERY						
			Mach.		Hand	
Date	Emp.	Kind of Work	H	M	H	M
10/1	24	65	3	10		
	27&28	64	8	30		
	29	78			2	30
		86			2	00
10/2	23	63	8	30		
			20	10	4	30

Stockroom Work				
			TIME	
Date	Emp.	Work	H	M
Brot Forward			3	50
9/27	20	23	1	50
9/29		23	1	00
10/1		23	1	30
			7	50

PURCHASED ITEMS	COST	
Electros		
Zinc Etch.		
Halftones		
Misc.		

COST SUMMARY				
	TIME			
ITEMS	H	M	COST	
Stock			50	26
Ink			2	00
Pur. Items				
Mch. Comp	39	30	51	35
" Alter'n	6	45	8	78
HandComp	92	05	93	93
" Alter'n	58	00	59	16
Cylinder	21	35	22	66
Jobber	11	45	6	46
Bind. Mach	20	10	12	10
" Hand	4	30	2	12
Stockroom	7	50	7	91
Total Cost			316	73
Estimated Price			310	
Add Alterations			81	53
Selling Price			391	53
Profit			74	80
Loss				

Illustration No. 131, Job Cost Ledger, Cost Accounting Set.

EXPLANATION. Space is provided for each of the following: stock, ink, name of customer, address, description of the order manufactured, quantity and date delivered, cost in composing room, pressroom, bindery and stockroom, cost of additional purchased items, summary column of costs, total cost, alteration charges, estimated charges, estimated price, selling price and the profit or loss. Each job is numbered and the date it is received is indicated.

The facts entered on these job cost sheets are obtained from requisition blanks, special invoices for purchased items, and the daily time tickets. These items are posted daily, and the posting checked and audited at least twice during each cost period, or before the job is charged. The total of the materials, ink, purchased items, and factory costs is entered in the sales book when the job is charged. When the job is completed, the sheet is removed from the current binder and placed in a permanent binder.

At the end of the month the total of the cost of materials, ink and purchased items on each unfinished job must be the same as the balance of the Materials in Process account in the general ledger. The total of the composing room, pressroom, bindery and stockroom time multiplied by the hour cost for each department will be the cost of machine time credited to these, but will not prove with the accounts that go to make up this cost, because the hour rate is based on the average of the six preceding months, and not on the actual expense for the cost period. This is further explained in the Factor for Safety account, § 339.

§ 371. Method of Ascertaining the Machine Hour Rate. As explained in § 315, the machine hour rate is the cost per hour for operating each machine, or factor (§ 316), consisting of a group of machines or workmen. This cost is based on the cost of installation (§ 317) and the cost of operating (§ 318) each machine or factor.

The year is divided into cost periods, and the machine rate for each cost period is ascertained according to the average expenses of the preceding cost periods. The cost period has no relation to the fiscal period. The former refers to the time to which the hour cost rate will apply, and the latter to the time between ledger closings. The cost periods are made short because the varying conditions in the factory may change the hour cost, in which case jobs passing through the factory would not be charged with the correct cost. Keen competition forces the manufacturer to know his cost so that he can make intelligent estimates on prospective jobs, hence he must know at all times the cost of operating the various factors in his plant. The machine hour cost may be ascertained by dividing the total cost by the efficiency hours (§ 323) or the chargeable hours (§ 324). In either case the results are the same, provided the lost time is charged according to the supplementary rate when the efficiency hours are used.

In order to distribute the various costs over the factors which they affect, it is necessary to prepare a distribution sheet. Illustration No. 132 shows the distribution sheet used to ascertain the machine hour cost for a printing plant. This plant is divided into four distinct departments: *composing room, pressroom, bindery and stockroom.* The composing room represents two factors; the pressroom, two; the bindery, two; and the stockroom, only one. An explanation is given in regard to the distribution of each amount as well as to the method of ascertaining the machine hour rate according to the average expenses of the preceding fiscal periods and the chargeable hours for each factor.

EXPLANATION. 1. *Columns.* The first column is for office or general administrative expense; second, sales or selling expense; third, maintaining the stockroom; fourth, operating the machines in the composing room; fifth, maintaining the hand department of the composing room; sixth, operating the cylinder presses in the pressroom; seventh, operating the job presses in the pressroom; eighth, operating the machines in the bindery; ninth, maintaining the hand department of the bindery; tenth, total amounts distributed. *Amounts entered in this column represent actual payments for the cost period and are shown by accounts in the general ledger.*

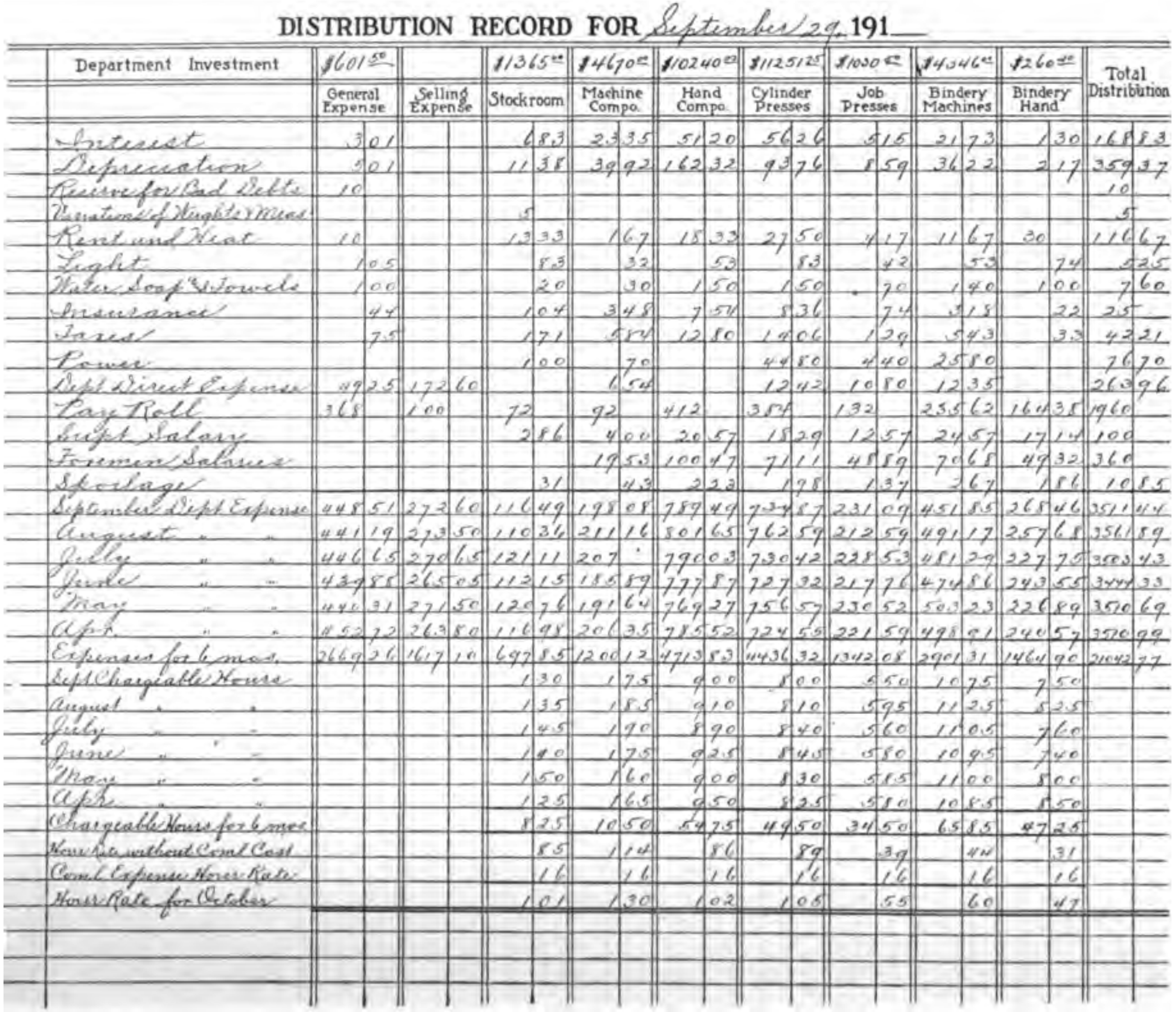
2. *Department Investment.* The cost of equipment in each department or factor is entered at the top of the column provided for the factor. This cost is not distributed, but it is necessary because interest charges, depreciation and taxes are based on the value of the property. The amount entered in the first column represents the cost of office equipment; the second column is left blank, as there is no investment in the selling department; the third represents the cost of machinery and equipment in the stockroom; the fourth, the cost of the linotype, and other equipment in connection with it; the fifth, the cost of type, cases, stones, etc., in the composing room hand factor; the sixth, the cost of cylinder presses; the seventh, the cost of job presses; the eighth, the cost of machinery and equipment in the machine bindery factor; the ninth, the cost of tables and equipment used by the employees who do hand work in the bindery. The amounts shown in these columns represent the value at the beginning of the fiscal period, and as a rule no changes are made in these during the period, even though additional property may be purchased or a part of the equipment sold.

3. *Interest.* This is based on the installation cost and a rate of 6%. The amount entered in each column is one-twelfth of 6% of the investment in that department. Interest is estimated for one year at 6%, but the cost period is for one-twelfth of a year. The total amount entered in the tenth column equals the amount of interest on all the investment in the plant for one month. The question of including interest as one of the factory costs has provoked much argument among accountants. If interest is not considered as one of the costs, the distribution would not be shown on the distribution sheet.

4. *Depreciation.* Depreciation represents the decrease in value on account of wear and tear. The amount of the depreciation in a manufacturing business must be determined by the nature of the machinery and the business, and by other information which can be based only on experience. There are a number of companies who study the conditions in manufacturing plants and estimate the depreciation that should be allowed on different machinery. The rate of depreciation given in the Illustration is based on the rate outlined by one of the leading appraisal companies, and is generally accepted by insurance companies in settling losses. The rate in the office, stockroom, on machines

in the composing room, equipment in the hand factor of the composing room, cylinder presses, job presses, machines in the bindery, and equipment in the hand factor of the bindery, is 10% per annum; the rate for type which represents a part of the equipment in the hand factor of the composing room is 25%; linotype metal, which represents a part of the equipment of the linotype, 6%. The inventory book will show a list of all property on hand, and the depreciation is figured from this.

5. *Reserve for Doubtful Accounts.* This represents the amount deducted from personal accounts on account of possible loss from collections. It is one of the general expenses and is entered in the first column only. Some accountants distribute this cost over all the factors, but this is not considered the best practice.



DISTRIBUTION RECORD FOR September 29. 191

Department Investment	$601 50		$1365 00	$4670 00	$10240 00	$11251 25	$1030 00	$4346 00	$260 00	Total Distribution
	General Expense	Selling Expense	Stockroom	Machine Compo.	Hand Compo.	Cylinder Presses	Job Presses	Bindery Machines	Bindery Hand	
Interest	3 01		6 83	23 35	51 20	56 26	5 15	21 73	1 30	168 83
Depreciation	5 01		11 38	39 92	162 32	93 76	8 59	36 22	2 17	359 37
Reserve for Bad Debts	10									10
Variations of Weights & Meas.			5							5
Rent and Heat	10		13 33	1 67	18 33	27 50	4 17	11 67	30	116 67
Light	1 05		83	32	53	83	42	53	74	5 25
Water Soap & Towels	1 00		20	30	1 50	1 50	70	1 40	1 00	7 60
Insurance	44		1 04	3 48	7 51	8 36	74	3 18	22	25
Taxes	75		1 71	5 84	12 80	14 06	1 29	5 43	33	42 21
Power			1 00	70		44 80	4 40	25 80		76 70
Dept Direct Expense	49 25	172 60		1 54		12 42	10 80	12 35		263 96
Pay Roll	368	100	72	92	412	384	132	235 62	164 38	1960
Supt Salary			2 86	4 00	20 57	18 29	12 57	24 57	17 14	100
Foremen Salaries				19 53	100 47	71 11	48 89	70 68	49 32	360
Spoilage			31	43	2 23	1 98	1 37	2 67	1 86	10 85
September Dept Expense	448 51	272 60	116 49	198 08	789 49	734 87	231 09	451 85	268 46	3511 44
August " "	441 19	273 50	110 34	211 16	801 65	762 59	212 59	491 17	257 68	3561 89
July " "	446 65	270 65	121 11	207	790 03	730 42	228 53	481 29	227 75	3503 43
June " "	439 88	265 05	112 15	185 89	777 87	727 32	217 76	474 86	243 55	3444 33
May " "	440 31	271 50	120 76	191 64	769 27	756 57	230 52	503 23	226 89	3510 69
Apr. " "	452 72	263 80	116 98	201 35	785 52	724 55	221 59	498 91	240 57	3510 99
Expenses for 6 mos.	2669 26	1617 10	697 85	1200 12	4713 83	4436 32	1342 08	2901 31	1464 90	21042 77
Dept Chargeable Hours			1 30	1 75	9 00	8 00	5 50	10 75	7 50	
August " "			1 35	1 85	9 10	8 10	5 95	11 25	5 25	
July " "			1 45	1 90	8 90	8 40	5 60	11 05	7 60	
June " "			1 40	1 75	9 25	8 45	5 80	10 95	7 40	
May " "			1 50	1 60	9 00	8 30	5 85	11 00	8 00	
Apr. " "			1 25	1 65	9 50	8 25	5 80	10 85	8 50	
Chargeable Hours for 6 mos.			8 25	10 50	54 75	49 50	34 50	65 85	47 25	
Hour Rate without Coml Cost			85	1 14	86	89	39	44	31	
Coml Expense Hour Rate			16	16	16	16	16	16	16	
Hour Rate for October			1 01	1 30	1 02	1 05	55	60	47	

Illustration No. 132, Distribution Sheet, Cost Accounting Set.

6. *Variations of Weights and Measures.* This represents the discrepancy between the balance of the Materials account and the physical inventory of materials on hand at the close of the fiscal period. Since the stockroom has charge of all stock purchased, issued and sold, this discrepancy is made a part of the stockroom expense; the amount is entered in that column.

7. *Rent and Heat.* This represents the amount paid for rent and heat, heat in this case being included in the rent charge, since the building is steam heated. The amount paid for rent is $1,400.00 per year, or $116.67 for one-twelfth of a year, the length of the cost period. The floor plan of the building, in which the printing plant is located, is shown in Illustration No. 133. Each department and the number of feet it occupies are indicated in the floor plan. The cost of rent for each factor is based on the number of square feet it occupies. By referring to the floor plan, the student will note that there are 7,000 square feet and that the office occupies 600 of this, hence the office rent is 6-70 of the total rent, which is $10.00. (6-70 x $116.67 = $10.00.) The stockroom occupies 800 square feet and is charged with 8-70 of the total rent; the rent of the other factors is distributed in the same manner. To prove the distribution, the student should make the necessary calculations required to ascertain the amount given on the distribution sheet.

8. *Light.* This refers to the cost of lighting the plant. This is distributed over the factors according to the number of lamps (electric bulbs) in each factor. Illustration No. 133 shows the number of lamps in each factor. In order to ascertain the amount of light cost that is to be charged to each factor, it is necessary to multiply the total amount paid by a fraction, the numerator of which is the number of lamps in each department, and the denominator the total number of lamps in the plant.

9. *Water, Soap and Towels.* This refers to the amount paid for water, soap and towels used by the employees. It is distributed over the various factors according to the number of employees in each factor. The illustration for the floor plan shows the number of employees in each factor. In order to ascertain the amount with which each factor is charged, it is necessary to multiply the total amount paid by a fraction, in which the number of employees in the factor is the numerator and the total number of employees in the factory, the denominator. To understand this, the student should prove each of the various amounts entered in the columns according to the method described.

10. *Insurance.* This refers to the amount paid for protection against loss by fire or other natural causes. It is distributed according to the value of the property in each factor. In order to find the amount that is to be charged to each, it is necessary to multiply the total amount paid for insurance by a fraction in which the value of the property in each factor is the numerator, and the total value of all the property, the denominator. The actual value may be used, but, to facilitate calculations, the distribution in the illustration is based on $100.00 units.

11. *Taxes.* Amounts paid for taxes are distributed in the same manner as insurance.

12. *Power.* This represents the amount paid for electricity used in operating the various machines, and must be distributed over those factors that are equipped with machinery. The distribution is based on the number of horsepower in each factor and the number of chargeable hours produced by the factor. The horsepower in the departments is as follows: Stockroom, 2; Composing Room Machines, 1; Cylinder Presses, 14; Job Presses, 2; Bindery Machines, 6. The number of chargeable hours produced by these factors is as follows: Stockroom, 130; Composing Room Machines, 175; Cylinder Presses, 800; Job Presses, 550; Bindery Machines, 1075. In order to ascertain the amount of the charges for power with which each factor is to be charged, multiply the number of horsepower in each by the chargeable hours produced by that factor. The total of these five results is used as a denominator and the result in each factor as a numerator; the amount paid for power (Power account) is multiplied by this fraction in order to ascertain the amount of power to charge to each department. Thus, the cutter in the stockroom requires a two horsepower motor to operate it. The total number of chargeable hours produced by the stockroom during September is 130. This multiplied by the number of horsepower equals 260, which is the numerator for this factor. The total of the results for all the factors is 19,185, which is the denominator. Using a twenty-five unit basis, 260 would be changed to 250 and 19,185 to 19,175. The fraction is then 250-19175, or, when reduced, 10-767. This multiplied by $76.70, which is the amount paid for power, will give $1.00, which is the amount charged to the stockroom as power cost. To understand this, the student should make all the calculations necessary to ascertain the various amounts given in the other columns on the line with Power.

13. *Departmental Direct Expense.* This refers to the expenses of each department. In the office, it refers to the various amounts debited to the General Administrative Expense account; in the selling department, to the amounts paid for traveling expense, advertising and any other expenditures made in selling the products of the factory; in the other departments, to the miscellaneous costs, which are debited to an account with the department in the general ledger. In order to make these distributions it is necessary to analyze the departmental expenses of each department and determine the factor for which each payment is made. When this has been ascertained, the expense of each factor is entered in the column for it. In the illustration, there were no direct expenses for the stockroom, hand factor of the composing room, and the hand factor of the bindery, hence no amounts are entered in these. The distribution of the direct departmental expense for each factor is the most difficult of all expenses, and the student will better understand it when he has analyzed his accounts at the end of the first month, at which time further explanations will be given.

14. *Pay Roll.* This refers to amounts paid to factory employees who are engaged in the manufacturing department, and is the amount charged to the Pay Roll account, with the exception of the salary of the superintendent and foremen. In the general expense column it is the salary of the president, bookkeeper, assistant bookkeeper, and other office employees; in the selling expense column, the salary of the salesman; in the stockroom, the salary of the stock clerk; in the machine composition factor, the wages of the linotype operator; in the hand composition factor, the wages of the men who set type by hand, copy holder, galley boy, and other employees in the hand factor; in the cylinder press factor, the wages of the two pressmen and four feeders; in the job press factor, the wages of the one pressman and the two feeders. In the bindery, the employees work in both factors, hence the total bindery pay roll must be distributed over the two factors according to the number of chargeable hours in each. At this time, the bindery machine factor has produced 1,075 hours and the bindery hand factor, 750 hours. The total pay roll of all the employees in the bindery is $400.00. This amount is multiplied by a fraction, the numerator of which is the chargeable hours in each factor and the denominator the total chargeable hours in both factors.

15. *Superintendent's Salary.* The superintendent has charge of the entire plant, and his salary is distributed over the factors according to the chargeable hours in each factor. In order to ascertain the amount of the salary of the superintendent that is to be charged to each factor, multiply the amount of his salary by a fraction, the numerator of which is the number of hours in each factor, and the denominator, the total of all the hours produced by the factory.

16. *Foremen's Salary.* Each department except the stockroom has a foreman in charge, and his salary is distributed over the two factors in the department of which he has charge. The distribution is made in the same manner as the superintendent's salary, except that the denominator in each will be the number of chargeable hours in both factors of the department, and the amount considered will be the salary of the foreman in the department.

17. *Spoilage.* This is the loss on account of work which is spoiled in process of manufacture or returned by customers because it is not according to contract, and which can not be used for any other purpose. It is distributed over the various factors according to the number of chargeable hours, that is, in the same manner as the superintendent's salary.

18. *Totals.* The total of the first column represents the total office expense, which includes interest, depreciation of office equipment, reserve for doubtful accounts, rent, light, insurance, taxes, miscellaneous expenses and pay roll. All these amounts are charged to some account in the general ledger, except interest, which is not represented by an account, but is finally included in the profits at the close of the fiscal period. The totals of the various other columns represent the cost of maintaining the departments and interest on the investment in the department. The total of the tenth column, $3,511.44, should be the same as the total of all the accounts that enter into the cost of goods manufactured, plus the interest, which, as stated, is not charged but included in the final statement.

The machine hour rate is not based on the *actual* expenses of the preceding period, but the *average* expenses of the six preceding periods, hence the five other totals listed below the expenses for September. The total of these six represents the total expenses of each department or factor for the six preceding cost periods. See Manufacturing Cost accounts in Illustration No. 143.

To ascertain the cost per hour for operating each department or factor, it is necessary to divide the total cost for operating by the total number of hours. These are shown just below the total expenses. The facts are obtained from the hour record sheet and are proved to be correct at the end of each week.

19. *Manufacturing Cost Rate.* The machine hour rate, that is, the cost of operating each factor, should be shown separate from the commercial or office cost. This is the manufacturing cost rate and is obtained by dividing the total cost of operating the factor for the six previous periods by the total number of chargeable hours produced by the factor for the same time. To facilitate calculations, the amounts and chargeable hours are based on 25 units. The stockroom cost for April, May, June, July, August and September, is $697.85 or, using a 25-unit basis, $700.00. The total number of chargeable hours which it has produced is 825. Dividing the cost by the hours gives a rate of 85 cents per hour, which means that every job that requires work in the stockroom will be charged with 85 cents per hour for manufacturing cost. The rates for the other factors are obtained in the same manner.

20. *Commercial Cost Rate.* Commercial cost is the office (General Administrative) and the selling expense cost. These are shown in the first two columns on the distribution sheet. There are two methods of distributing the office cost over the various factors. One is according to the chargeable hours and the other according to the value of the work done in the department, based on the chargeable hours. The former method is considered the better practice, and is used on the distribution sheet given in the illustration. To ascertain the commercial hour cost, multiply the total commercial cost (general administrative and selling) by a fraction that has the chargeable hours for each factor for the six periods as a numerator and the total chargeable hours for all the factors for the six periods as a denominator. The result will be the amount in dollars and cents that should be charged to each factor as commercial expense. Divide this amount by the number of chargeable

(*Concluded on page 280.*)

Location of Equipment

1. Linotype Machine.
2. Linotype Work Bench.
A. Type Cabinets.
3. Imposing Stone, 48 x 72.
4. Imposing Stone, 48 x 72.
4½. Imposing Stone, 48 x 72.
5. Imposing Stone, 40 x 80.
6. Chase Rack.
8. Galley Proof Press.
9. Potter Proof Press.
10. Electro Cabinets.
11. Cylinder, Press 36 x 48.
12. Cylinder, Press 36 x 48.
13. Cylinder, Press 36 x 48.
14. Cylinder, Press 28 x 40.
15. Job Press.
16. Job Press.
17. Job Press.
18. Cutter.
19. Cutting Table.
20. Folding Machine.
21. Table for Signatures.
22. Table for Hand Work.
23. Table for Hand Work.
24. Wire Stitcher.
25. Wire Stitcher.
25½. Table for Stitchers.
26. Ruling Machine.
27. Cutting Machine.
28. Bundling Press.
29. Rotary Perforator.
30. Punching Machine.
31. Cutter's Table.
32. Ruler's Table.
33. Table for Ruled Work.

Square Feet Occupied by Each Factor

Office	600 sq. ft.
Composing Room, Machines	100 sq. ft.
Composing Room, Hand	1,100 sq. ft.
Cylinder Presses	1,650 sq. ft.
Job Presses	250 sq. ft.
Bindery, Machines	700 sq. ft.
Bindery, Hand	1,800 sq. ft.
Stockroom	800 sq. ft.
Total	7,000 sq. ft.

Number of Employees in Each Factor.

Office	5
Composing Room, Machine	1½
Composing Room, Hand	7½
Cylinder Pressroom	7½
Job Pressroom	3½
Bindery, Machines	7
Bindery, Hand	5
Stockroom	1

Number of Electric Lamps in each Factor.

Office	10
Composing Room, Machines	3
Composing Room, Hand	5
Cylinder Pressroom	8
Job Pressroom	4
Bindery, Machines	5
Bindery, Hand	7
Stockroom	8

Number of Horsepower in each Factor

Composing Room Machines	1
Cylinder Presses	14
Job Presses	2
Bindery Machines	6
Stockroom Machines	2

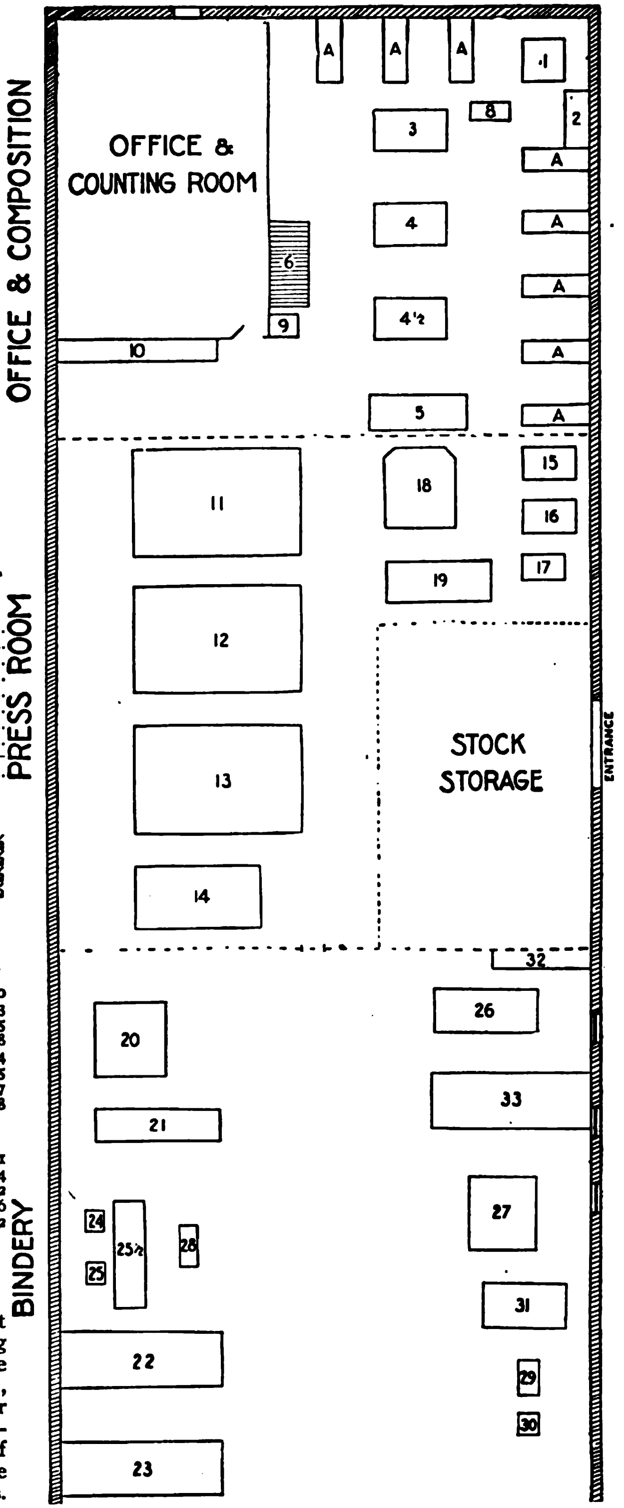


Illustration No. 133, Floor Plan of a Printing Plant.

EXPLANATION. The drawing at the right is the floor plan of a building 50 x 140 feet and the information at the left, the description of the equipment, space occupied by each factor, number of employees, electric lamps and horsepower. The fractions in the number of employees are caused by the time of the foreman being devoted to two factors.

(*Continued from page 278.*)

hours produced by the factor for the six periods, and the result is the commercial rate or the cost per hour to be added to the manufacturing rate. Thus, the total hours for the six periods in the stockroom is 825. The total chargeable hours for all the factors for the six periods is 27,050 (27,060). Using the total chargeable hours in the stockroom as a numerator and the total chargeable hours for all the factors as a denominator gives a fraction of 825-27050. This fraction is multiplied by $4,286.36, the commercial (general administrative and selling) expense for the six periods. The result is $130.73, which is that part of the commercial expense to be charged to the stockroom. To find the hour cost divide the amount, $130.73, by 825, the total chargeable hours for the six periods; the result is 16 cents. The hour cost will be the same in all the factors, but the calculations should be made to prove the correctness of the work. Each job is charged for the time it occupies a factor at the manufacturing cost plus the 16 cents commercial cost. Thus a job that requires one hour in the stockroom is charged with $1.01—85 cents manufacturing cost and 16 cents commercial cost.

BEN FRANKLIN PRESS.
TRIAL BALANCE, SEPTEMBER 29, 191...

1	Capital Stock			35000	
2	Surplus	2385	86		
3	Cash	3405	44		
4	Accounts Receivable	2217	63		
5	Reserve for Doubtful Accounts			120	
6	Taxes	126	63		
7	Office Equipment	601	50		
8	Reserve for Depreciation of Office Equipment			60	15
9	Machinery and Factory Equipment	27004	52		
10	Reserve for Depreciation of Machinery and Factory Equipment			2700	45
11	Type	6159	15		
12	Reserve for Depreciation of Type			1539	79
13	Linotype Metal	200			
14	Reserve for Depreciation of Linotype Metal			12	
15	Materials	1151	40		
16	Ink	137	50		
.17	Factory Supplies	22	33		
18	Vouchers Payable			1070	86
19	Materials in Process	204	08		
20	Machine Time in Process (Mfg. Cost, $845.57; Com'l, $135.45)	981	02		
21	Variations of Weights and Measures	39	86		
22	Spoilage	62	90		
23	Labor	11677	90		
24	Building Expense	682	34		
25	Pressroom Expense	1286	88		
26	Stockroom Expense	370	46		
27	Composing Room Expense	1505	29		
28	Bindery Expense	587	82		
29	Power	482	96		
30	Composing Room Time	624	19	7181	22
31	Pressroom Time	362	47	7434	54
32	Bindery Time	297	62	7032	96
33	Stockroom Time	81	53	696	91
34	Selling Expense	1566	30		
35	General Administrative Expense	2584	61		
36	Loss on Doubtful Accounts	60			
37	Cost of Sales (Mfg., $35635.70; Commercial, $4210.91)	39846	61		
38	Sales			41833	03
39	Sales of By-Products			80	26
40	Purchases Discount			941	65
41	Interest			1012	98
		106716	80	106716	80

Illustration No. 134, Trial Balance, Cost Accounting Set.

EXPLANATION. This refers to the final Trial Balance taken from the general ledger after the adjusting entries for insurance, depreciation, reserve for doubtful accounts and variations of weights and measures have been made and posted. The accounts have been kept according to the explanations given in §§ 326–351.

SCHEDULE 1. LIST OF PERSONAL ACCOUNTS.

		Myers Iron Works, City	150			
		Jackson Stove Co., Jackson	110	50		
		American Wagon Co., City	252	75		
		Miller Grocery Co., City	20	50		
		Sheppard Painting and Decorating Co., City	328	65		
		Robert Clarke Co., City	386	75		
		Anchor Buggy Co., City	191	50		
		Royal Mfg. Co., City	88	70		
		Union Central Life Insurance Co., City	209	40		
		Citizen's Supply Co., City	199	18		
		South-Western Publishing Co., Cincinnati, O.	204	70		
		Shady Lane Farm, Cheviot	75			
		Total, Sales Ledger Account, Dr.			2217	63

Illustration No. 135, Schedule 1, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. This represents the balance due from personal accounts as shown by the accounts in the sales ledger. The balances are proved to be correct by comparison with the balance of the Sales Ledger account in the general ledger.

SCHEDULE 2. LIST OF MATERIALS, INK AND FACTORY SUPPLIES IN STOCK, SEPTEMBER 29, 191...

MATERIALS

	7500	sheets	Sterling Book,	25 x 38	— 80 lbs.,	1200	lbs.,	.05¼	63			
	5500	“	R. R. Manila	17 x 22	— 16 lbs.,	176	lbs.,	.04¼	7	48		
	5000	“	Ben Franklin	25 x 38	— 70 lbs.,	700	lbs.,	.08½	59	50		
	30250	“	Chicosa,	17 x 22	— 24 lbs.,	1452	lbs.,	.08	116	16		
	27500	“	“	19 x 24	— 28 lbs.,	1540	lbs.,	.08	123	20		
	1750	“	Green Poster,	28 x 42	—150 lbs.,	525	lbs.,	.04	21			
	2250	“	Blue Poster,	28 x 42	—150 lbs.,	675	lbs.,	.04	27			
	3625	“	Orange Poster	28 x 42	—150 lbs.,	1087½	lbs.,	.04	43	50		
	2750	“	White Satin,	25 x 38	— 80 lbs.,	440	lbs.,	.07¾	34	10		
	11500	“	Duane Bond,	17 x 22	— 16 lbs.,	368	lbs.,	.07	25	76		
	1500	“	“ “	17 x 28	— 24 lbs.,	72	lbs.,	.07	5	04		
	5750	“	“ “	19 x 24	— 24 lbs.,	276	lbs.,	.07	19	32		
	17500	“	Heritage Bond,	17 x 22	— 20 lbs.,	700	lbs.,	.11	77			
	5500	“	“ “	17 x 28	— 24 lbs.,	264	lbs.,	.11	29	04		
	8500	“	“ “	19 x 24	— 24 lbs.,	408	lbs.,	.11	44	88		
	2500	“	Trojan Ledger,	17 x 22	— 28 lbs.,	140	lbs.,	.08	11	20		
	16500	“	“ “	17 x 28	— 32 lbs.,	1056	lbs.,	.08	84	48		
	1375	“	“ “	19 x 24	— 28 lbs.,	77	lbs.,	.08	6	16		
	750	“	B. W. Ledger,	19 x 24	— 44 lbs.,	66	lbs.,	.35	23	10		
	1250	“	“ “ “	16 x 21	— 28 lbs.,	70	lbs.,	.35	24	50		
	3125	“	“ “ “	16 x 42	— 60 lbs.,	375	lbs.,	.35	131	25		
	5600	“	Buckeye Cover,	22 x 28½	— 60 lbs.,	672	lbs.,	.07½	50	40		
	1250	“	“ “	20 x 25	— 60 lbs.,	150	lbs.,	.07½	11	25		
	2500	XX	Ivory Envelopes,	No. 6¾				1.29	3	23		
	25700	XXX	“ “	No. 6¾				1.48	38	04		
	5500	XXX	“ “	No. 9				1.96	10	78		
	7500	sheets	Heritage Bond,	No. 6¾				1.60	12	00		
	18500	“	“ “	No. 10				2.65	49	03		
	Total, Materials Account, Dr.										1151	40

(*Concluded on page 282.*)

(*Schedule 2—Illustration No. 136—Concluded.*)

INK

100 lbs. Book Ink	.25	25			
150 lbs. Superior Ink	.50	75			
50 lbs. Halftone Ink	.75	37	50		
Total, Ink Account, Dr.				137	50

FACTORY SUPPLIES

10 spools No. 30 Wire, 50 lbs.,	.13½	6	75		
7 " No. 28 " 35 lbs.,	.12	4	20		
9 " No. 25 " 45 lbs.,	.10½	4	73		
35 lbs. Waste	.03½	1	23		
12 gallons Coal Oil	.09	1	08		
13 " Gasoline	.18	2	34		
2 " Machine Oil	1.00	2	00		
Total, Factory Supplies Account, Dr.				22	33

Illustration No. 136, Schedule 2, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. A going inventory is kept with each kind of materials, ink and factory supplies purchased. This means that an account is kept in the materials ledger with each, and that this is debited for purchases and credited for requisitions and sales. When a going inventory is maintained, it is not necessary to take a physical inventory of property on hand in order to make the statement, but this should be done at least twice each year to prove the materials in stock with the Materials account in the general ledger. The value of materials on hand as shown in this list is the same as the balance of the Materials account on the Trial Balance. The Variations of Weights and Measures account indicates that a discrepancy did exist, but has been corrected by the proper adjusting entry. The value of ink on hand as shown in this list is the same as the balance of the Ink account, and the value of factory supplies, the same as the balance of the Factory Supplies account on the Trial Balance.

SCHEDULE 3. LIST OF MATERIALS AND INK IN PROCESS, SEPTEMBER 29, 191...

1327	25 17-20 rms., 25 x 38—80 lbs., Sterling Book,	.05¼	108	57		
	875 sh., 20 x 25, Double Thick Buckeye Cover,	3.65	31	94		
	5½ lbs. Special Black Ink,	.35	1	93		
	1½ lbs. Superior Ink	.50		75		
1340	4 15-20 rms., 25 x 38—70 lbs., Ben Franklin Book,	.08½	28	26		
	400 sh., 22 x 28, Cloth Lined Ticket,	5.50	22	00		
	4 lbs. Superior Ink,	.50	2	00		
1336	1½ lbs. Halftone Ink,	.75	1	13		
	8 lbs. Superior Ink,	.50	4	00		
1358	7 lbs. Superior Ink,	.50	3	50		
	Total, Materials in Process Account, Dr.				204	08

Illustration No. 137, Schedule 3, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. Materials are requisitioned from stock and charged to the job from the entry in the requisition journal. When the job is completed, the customer is charged with the cost of these materials. Materials in unfinished jobs are a part of the assets of the business and their value must be shown on the statement.

SCHEDULE 4. LIST OF MACHINE TIME IN PROCESS, SEPTEMBER 29, 191...

Job No.	Composing Room								Pressroom				Bindery				Stock-room	
	Machine				Hand													
	Comp.		Altera.		Comp.		Altera.		Cylinder		Jobber		Machine		Hand			
	H.	M.	H.	M.	H.	M.	H.	M.	H.	M.	H.	M.	H.	M.	H.	M.	H.	M.
1327	52	10	8	00	13	00	7	30	30	00	6	00	15	15	14	00	8	00
1336	42	00	3	40	15	15	4	35	18	00	9	10					3	30
1340	39	30	6	45	92	05	58	00	21	35							6	20
1358	96	00	10	30	95	00	32	00	39	00							5	30
1370					2	05												
1375	38	00	5	00	10	30	5	30										
1376	8	00				20												
1378	17	00			3	30												
1379						50												
1380					3	30												
Total	292	40	33	55	236	05	107	35	108	35	15	10	15	15	14	00	23	20
Rate....... Mfg.			1	18				92		96		45		50		36		87
G. A.				10				10		10		10		10		10		10
Sell.				06				06		06		06		06		06		06
Total...... Mfg.			385	37			316	17	104	24	6	82	7	63	5	04	20	30
G. A.			32	65			34	37	10	86	1	52	1	52	1	40	2	33
Sell.			19	60			20	62	6	51		91		92		84	1	40
			437	62			371	16	121	61	9	25	10	07	7	28	24	03

Illustration No. 138, Schedule 4, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. This represents the value of machine time in process. This value is ascertained by multiplying the number of hours charged to the jobs in process as shown by the unfinished jobs in the job cost ledger, by the machine hour rate used during the last cost period. The rate for the next cost period may be used, but since the rate is based on the average of the six preceding cost periods, either is satisfactory. The general administrative and selling cost is separate from the manufacturing cost for convenience in making the statement. Each job when completed shows the total cost which includes the manufacturing, general administrative, and selling costs, but when the Profit and Loss statement is prepared, the separate costs must be shown.

SCHEDULE 5. LIST OF EQUIPMENT AND MACHINERY, BEN FRANKLIN PRESS, SEPTEMBER 29, 191...

Office Equipment..	$ 601.50
1 Safe, $150.00; 1 Bookkeeper's Desk, $28.00; 1 Roller Top Desk, $42.00; 1 Typewriter Desk, $22.00; 1 Underwood Typewriter, $100.00; Filing Cabinets, $200.00; 2 Tables, $30.00; 1 Stool, $3.50; 1 Chair, $5.00; 6 Chairs, $9.00; 1 Rack, $12.00.	
Cylinder Pressroom Equipment....................................	11251.75
4 Cylinder Presses, $10350.00; Pulleys and Belting, $23.00; 3 Four-Horsepower Motors, $420.00; 1 Two-Horsepower Motor, $90.00; Freight and Installation Expense, $200.00; Roller Holders, Make-Ready Tables, Racks, Quoin Key and other Cylinder Press Equipment, per inventory book, $168.75.	
Job Pressroom Equipment...	1030.50
3 Job Presses, $700.00; Pulleys and Belting, $8.00; 1 One-Horsepower Motor, $65.00; 2 ½-Horsepower Motors, $100.00; Freight and Installation Cost, $40.00; Fountains, Counters, Cabinets, and other Job Press Equipment, per inventory book, $117.50.	

(*Concluded on page 284.*)

(*Schedule 5—Illustration No. 139—Concluded.*)

Stockroom Equipment 1 Cutter, $933.00; 1 Two-Horsepower Motor, $90.00; Pulleys and Belting, $7.00; Freight and Installation Cost, $25.00; 1 Truck, $87.50; Shelving, Tables and other Stockroom Equipment, per inventory book, $222.50.	1365.00
Bindery Machine Equipment 1 Ruling Machine, $700.00; 1 One-Horsepower Motor, $75.00; 1 Cutter, $790.00; 1 Two-Horsepower Motor, $90.00; 1 Folder, $1,200.00; 1 One-Horsepower Motor, $75.00; 2 Wire Stitchers, $670.00, each with ½-Horsepower Motor attached; 1 Punch, $114.00; 1 Perforator, $400.00; 2 One-half-Horsepower motors, $100.00; Pulleys and Belting, $20.00; Freight and Installation Cost, $100.00; 3 Tables, $12.00.	4346.00
Bindery Hand Equipment 1 Hand Bundling Machine, $125.00; 1 Paper Baler, $35.00; Iron Top Tables, Folders, Numbering Machines, and other Hand Equipment, per inventory book, $100.40.	260.40
Composing Room Machine Equipment 1 Linotype with 1 One-Horsepower Motor attached, $3250.00; Freight and Installation Expense, $75.00; Extra Magazines, Proof Press, Metal Furnace, and Cabinets, per inventory book, $1345.00.	4670.00
Composing Room Hand Equipment Galley Cabinets, Type Cabinets, Chase Bar Racks, Imposing Stones, and other Composing Room Hand Equipment, per inventory book, $4080.87; Type, $6159.15..	10240.02

Illustration No. 139, Schedule 5, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. This is a list of the equipment and machinery in the office and manufacturing departments. It represents the equipment of an ideal printing plant as outlined by the American Type Founders Co.

SCHEDULE 6. LIST OF VOUCHERS PAYABLE.

Sept.	24	No. 936 Whitaker Paper Co.	385	60		
	26	No. 946 Central Ohio Paper Co.	88	40		
		No. 948 Graham Paper Co.	525	96		
	27	No. 949 Huber Ink Co.	61	25		
	29	No. 953 Bradford Belting Co.	9	65		
		Total, Vouchers Payable Account, Cr.			1070	86

Illustration No. 140, Schedule 6, Accompanying Balance Sheet, Cost Accounting Set.

EXPLANATION. This list is made up from the vouchers payable record and shows all unpaid vouchers. It represents the amounts due creditors and corresponds with the list of accounts in the purchases ledger, when the voucher system is not used.

§ 372. **Statement of the Business.** The Statement of the Business for a manufacturing concern is made for the same purpose as that for a trading concern, that is, to show the financial condition of the business, the present capital, and the net profit or net loss. It consists of at least two exhibits, (a) the Profit and Loss statement, and (b) the Balance Sheet.

It is customary to prepare the Balance Sheet first, but when the machine hour rate is used, it is necessary to prepare the Profit and Loss statement first in order to ascertain the amount of the Factor for Safety.

Illustration No. 134 shows the Trial Balance for the Ben Franklin Press at the close of the fiscal period, beginning April 1st and ending September 29th; Illustrations Nos. 135, 136, 137, 138, 139 and 140, the various schedules that accompany the Statement of the Business; Illustration No. 141, the Profit and Loss statement; and Illustration No. 142, the Balance Sheet. A full explanation is given in connection with each illustration.

BEN FRANKLIN PRESS.

EXHIBIT A. STATEMENT OF PROFIT AND LOSS FOR PERIOD, APRIL 1 TO SEPTEMBER 29, 191...

Returns from Sales:						
Sales					41833	03
Cost of Sales:						
Materials in Process, April 1	962	50				
Add Materials Purchased for Jobs	8561	85				
Add Materials Requisitioned from Stock	7463	78	16988	13		
Less Materials in Process, September 29			204	08		
Total Cost of Materials Used in Jobs Completed During the Period			16784	05		
Machine Time in Process, April 1	1365	81				
Add Labor	11677	90				
Pressroom Expense	1286	88				
Stockroom Expense	370	46				
Composing Room Expense	1505	29				
Bindery Expense	587	82				
Building Expense	682	34				
Power	482	96				
Variations of Weights and Measures	39	86				
Spoilage	62	90				
Total Manufacturing Cost of Completed and Incompleted Jobs for the Period	18062	22				
Less Mfg. Cost of Mach. Time in Process, September 29	845	57				
Total Manufacturing Cost of Jobs Completed During the Period			17216	65		
Cost of Stock Sold			1562	50		
Factor for Safety			72	50		
Total Materials and Manufacturing Cost of Jobs Completed					35635	70
Gross Profit on Sales					6197	33
Operating Cost:						
General Administrative Expense			2584	61		
Selling Expense			1566	30	4150	91
Net Profit from Operations					2046	42
Other Income:						
Interest			1012	98		
Purchases Discount			941	65		
Sales of By-Products			80	26	2034	89
Gross Income					4081	31
Deductions from Income:						
Loss on Doubtful Accounts					60	
Net Income Carried to Surplus					4021	31

Illustration No. 141, Profit and Loss Statement, Cost Accounting Set.

EXPLANATION. This Statement is prepared from the nominal accounts in the Trial Balance, Illustration No. 134. The returns from sales are represented by one Sales account. The cost of sales consists of (a) the materials cost, (b) the manufacturing cost, and (c) the cost of materials sold out of stock. These three costs should equal the Cost of Sales account less the commercial cost. Since they do not, because the manufacturing cost is based on the average of preceding periods, the Factor for Safety account represents the discrepancy. The difference between the returns from sales and the cost of goods sold is the gross profit on sales. The operating cost deducted from this gives the net profit from operations. The other income added to this gives the gross income. The deductions from income deducted from this gives the net income, which is transferred to the Surplus account.

BEN FRANKLIN PRESS—Exhibit B, Balance Sheet, September 29, 191..

Current Assets:					
Cash		3405	44		
Personal Accounts (Schedule 1)	2217.63				
Less Reserve for Doubtful Accounts	120.00	2097	63		
Materials (Schedule 2)		1151	40		
Ink (Schedule 2)		137	50		
Factory Supplies (Schedule 2)		22	33		
Materials in Process (Schedule 3)		204	08		
Machine Time in Process (Schedule 4)		981	02		
Total Current Assets				7999	40
Fixed Assets:					
Office Equipment (Schedule 5)	601.50				
Less Reserve for Depreciation	60.15	541	35		
Machinery and Factory Equipment (Schedule 5)	27004.52				
Less Reserve for Depreciation	2700.45	24304	07		
Type (Schedule 5)	6159.15				
Less Reserve for Depreciation	1539.79	4619	36		
Linotype Metal	200.00				
Less Reserve for Depreciation	12.00	188			
Total Fixed Assets				29652	78
Deferred Charges to Operations:					
Taxes				126	63
Total Assets and Deferred Charges				37778	81

Current Liabilities:				
Vouchers Payable (Schedule 6)			1070	86
Deferred Credits to Operations:				
Factor for Safety			72	50
Capital Accounts:				
Capital Stock	35000			
Surplus	1635	45		
Total Capital Accounts			36635	45
Total Liabilities, Deferred Credits and Capital Accounts			37778	81

Illustration No. 142, Balance Sheet, Cost Accounting Set.

EXPLANATION. This Balance Sheet is prepared from the real, valuation, and capital accounts in the Trial Balance, Illustration No. 134. The assets are arranged in the order of their availability and listed on the left. The liabilities are listed on the right. The amount credited to the Factor for Safety account represents a deferred credit to the cost of machine time, hence is listed as a deferred credit to operations. Had the actual cost been more than the average, it would have been a deferred charge to the cost of machine time and listed as a deferred charge to operations.

SEPTEMBER 29, 191...

Composing Room Time	6557	03		
Pressroom Time	7072	07		
Bindery Time	6735	34		
Stockroom Time	615	38		
Labor			11677	90
Pressroom Expense			1286	88
Stockroom Expense			370	46
Composing Room Expense			1505	29
Bindery Expense			587	82
Building Expense			682	34
Power			482	96
Variations of Weights and Measures			39	86
Spoilage			62	90
General Admr. Expense			2584	61
Selling Expense			1566	30
Loss on Doubtful Accounts			60	
Factor for Safety			72	50
Entry to close the manufacturing accounts into the Machine Time Accounts.				

Illustration No. 143, Journal Entry to Close Manufacturing Accounts.

EXPLANATION. The machine time cost is the same as the manufacturing cost as shown by the manufacturing accounts plus the factor for safety, hence the combined entry to close these accounts. Accounts with a credit balance are debited, and those with a debit balance, credited. When posted, the machine time accounts and manufacturing accounts will balance, and the Factor for Safety account will show the discrepancy between the actual and average manufacturing cost.

29				
Sales	41833	03		
Profit and Loss			41833	03
Profit and Loss	39846	61		
Cost of Sales			39846	61
Entries to close the trading accounts into the Profit and Loss account.				

Illustration No. 144, Journal Entries to Close the Trading Accounts.

EXPLANATION. The Profit and Loss account is credited with the returns from sales, and debited with the cost of sales. The balance of the Profit and Loss account after these amounts are posted, will show the profit on jobs completed.

29				
Interest	1012	98		
Purchases Discount	941	65		
Sales of By-Products	80	26		
Profit and Loss			2034	89
Profit and Loss	4021	31		
Surplus			4021	31
Entries to close the profit and loss accounts into the Profit and Loss account and to close this account into the Surplus account.				

Illustration No. 145, Journal Entries to Close the Profit and Loss Accounts.

EXPLANATION. The Profit and Loss account is credited with those accounts that show a credit balance, and the balance of the Profit and Loss account is transferred to the Surplus account. When a dividend is declared, the amount of the dividend will be taken out of the surplus by a journal entry, in which Dividend account is debited and Surplus account credited.

29				
Composing Room Time	808	78		
Pressroom Time	130	86		
Bindery Time	17	35		
Stockroom Time	24	03		
Machine Time in Process			981	02
Entry to close the Machine Time in Process Account.				

Illustration No. 146, Adjusting Entry After the Ledger is Closed.

EXPLANATION. The machine time in process at the close of the fiscal period is transferred to the machine time accounts, that these will show the cost of machine time in process at the beginning of the fiscal period.

§ 373. Proof Sheet. Before recording any transactions at the beginning of a new fiscal period, the bookkeeper should prove that his ledger has been closed correctly. This is effected by taking a Trial Balance or by checking the open accounts in the ledger with the assets, reserves, liabilities, capital accounts and surplus on the Balance Sheet. Either plan is satisfactory, but a second Trial Balance is the better.

TO THE STUDENT. Cost Accounting, or Costing, as it is sometimes termed, is one of the most difficult subjects of accounting. One reason for this is the varied conditions under which articles are manufactured. The manufacturer engaged in making brick is working under entirely different conditions from the one making automobiles; the printer (manufacturer of books) must obtain facts in costing that are not necessary with the manufacturer of shoes. To install a successful cost system in any manufacturing business requires a thorough knowledge of the conditions in the factory, and no accountant would undertake to do this without first studying these. On account of these varying conditions, accountants specialize in the different lines of manufacturing. Thus we have specialists in costing for the manufacturing of shoes, clothing, iron and steel products, agricultural implements, printing, etc.

The foregoing explanation of principles, forms and accounts (§§ 291-373) will be of valuable assistance to the beginner in an office where a cost system is maintained. While the set that accompanies the text relates to the printing business, the work done will give practical training in costing and will be invaluable to you in applying the principles. No matter what line of manufacturing may be involved, a record should be kept of the material, labor, and manufacturing expense costs, and your having kept such records means experience in costing.

You are not a cost accountant, but if you have done satisfactory work, you understand the method and need not hesitate to accept a position where a knowledge of costing is necessary.

SINGLE ENTRY BOOKKEEPING.

DECEMBER

§ **374. Single Entry Bookkeeping** is the simplest method of keeping a record of business transactions. It requires a history of the business by means of accounts, the same as Double Entry. Usually only personal real accounts (§ 28) are kept, but sometimes impersonal real accounts are represented in a single entry ledger, such as, Cash, Notes Receivable, Notes Payable, etc. Each transaction does not affect two or more accounts having equal debits and credits, though some of them may, depending entirely upon the accounts kept. Thus, if an account is kept with Notes Receivable, and a customer pays his account by note, the Notes Receivable account is debited for the same amount as the customer's account is credited. If the transaction is a sale for a note, or on account, only the Notes Receivable or customer's account is affected, because the merchandise accounts are not kept.

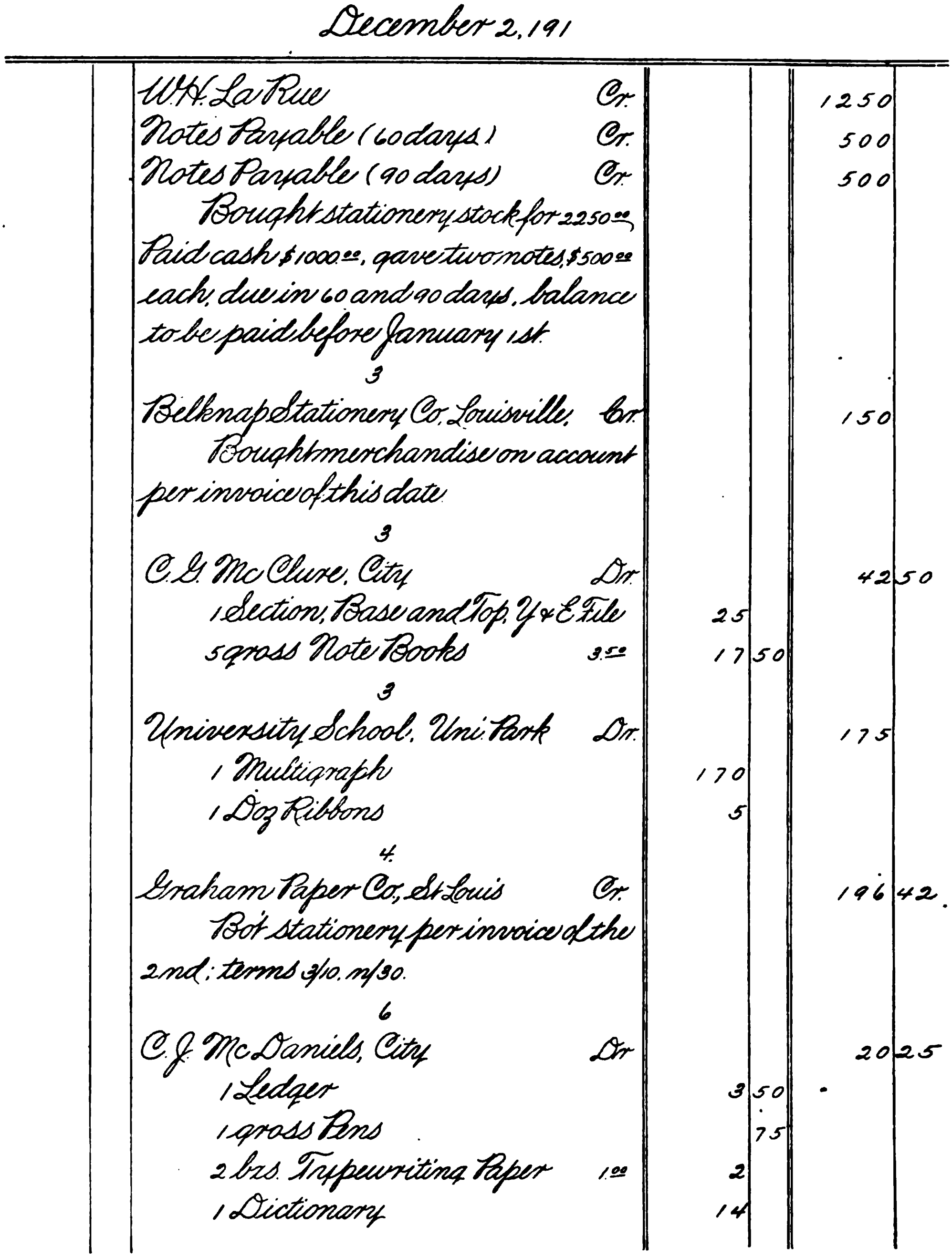
Single Entry is best defined as any method that is not Double Entry, because the application of the method varies with the wishes of the proprietor or bookkeeper. Any account kept by the Double Entry method may be used in the Single Entry method. Thus, if a detailed account of the expense of the business is desired, an Expense account may be kept. If it is necessary to keep a record of the goods purchased and sold, one Merchandise account, or Purchases and Sales accounts (§ 41) may be kept.' If a cash register is used, or there is not enough cash handled to justify the keeping of a Cash account, this may be omitted.

From the above it will be seen that Single Entry is really no definite method of keeping books. Most business men understand that the Single Entry method means the keeping of personal accounts only, and, as a rule, a Single Entry set of books contains only personal accounts.

§ **375. Comparison.** In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed, but its real meaning must remain the same. In Single Entry, the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statement of the Business; in Double Entry he knows by the Trial Balance that all items have been posted, the accounts in the ledger footed correctly, and that the Balance Sheet and Profit and Loss statements show the correct profit. In Single Entry, those interested in the business know (without proof) that they have made or lost the amount shown by the Statement of the Business, that is, if the work is done correctly; in Double Entry they know (with proof) that the net profit or net loss is correct, and know the accounts that make up this profit or loss. Neither method will prevent or detect errors in calculations. It is for this reason the business man requires an accurate bookkeeper.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who do not. While Single Entry may be used in a small business, yet better results can

(Concluded on page 291.)



December 2, 191

	W.H. La Rue	Cr.			1250	
	Notes Payable (60 days)	Cr.			500	
	Notes Payable (90 days)	Cr.			500	
	Bought stationery stock for 2250.00, Paid cash $1000.00, gave two notes, $500.00 each; due in 60 and 90 days, balance to be paid before January 1st.					
	3					
	Belknap Stationery Co. Louisville,	Cr.			150	
	Bought merchandise on account per invoice of this date					
	3					
	C.G. McClure, City	Dr.			42	50
	1 Section, Base and Top, Y & E File		25			
	5 gross Note Books	3.50	17	50		
	3					
	University School, Uni. Park	Dr.			175	
	1 Multigraph		170			
	1 Doz Ribbons		5			
	4					
	Graham Paper Co., St Louis	Cr.			196	42
	Bot stationery per invoice of the 2nd; terms 3/10, n/30.					
	6					
	C.J. McDaniels, City	Dr.			20	25
	1 Ledger		3	50		
	1 gross Pens			75		
	2 bxs. Typewriting Paper	1.00	2			
	1 Dictionary		14			

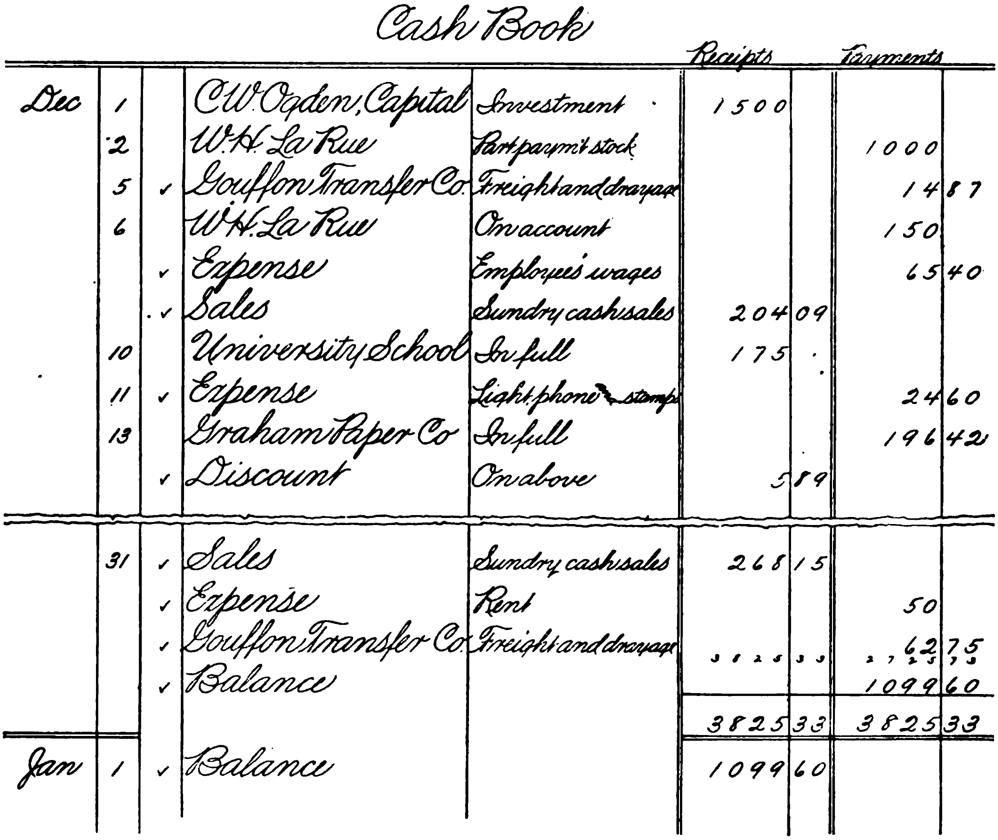
Illustration No. 147. Single Entry Day Book.

(*Continued from page 289.*)

be obtained with Double Entry. The reason Single Entry is used in many cases is because the one who keeps the books knows nothing of the many advantages of Double Entry. The teacher who wishes to do the most for his pupil will teach him all the advantages of Double Entry and the disadvantages of Single Entry, and instruct him to change any Single Entry set he may have to keep to Double Entry as soon as possible.

§ **376. Books of Account.** Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book, and ledger are the most popular with those who claim to "know" the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ **377. Day Book.** This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits, hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger



Cash Book

					Receipts		Payments	
Dec	1		C.W. Ogden, Capital	Investment	1500			
	2		W.H. La Rue	Part paym't stock			1000	
	5	✓	Gouffon Transfer Co.	Freight and drayage			14	87
	6		W.H. La Rue	On account			150	
		✓	Expense	Employees wages			65	40
		✓	Sales	Sundry cash sales	204	09		
	10		University School	In full	175			
	11	✓	Expense	Light phone & stamps			24	60
	13		Graham Paper Co	In full			196	42
		✓	Discount	On above	5	89		
	31	✓	Sales	Sundry cash sales	268	15		
		✓	Expense	Rent			50	
		✓	Gouffon Transfer Co	Freight and drayage	3825	33	62 2725	75 73
		✓	Balance				1099	60
					3825	33	3825	33
Jan	1	✓	Balance		1099	60		

Illustration No. 148, Single Entry Cash Book.

the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 147 shows the form of day book to be used.

§ **378. Single Entry Cash Book.** Any desired form of ruling may be used. The form given in Illustration No. 148 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. The ruling is similar to the ordinary journal; receipts are entered in the first column, and payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column with red ink, the word "Balance" written at the left, the two columns ruled, and the balance brought down, as shown in Illustration No. 148.

§ **379. Ledger.** This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger." This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions entered direct in the ledger.

The statement in regard to the ruling and the explanation of the stock "Single Entry Ledger" is made to show that there is really no such book as a single entry ledger, but that any form of ledger may be used. The words "Double Entry Ledger" and "Single Entry Ledger" are printed on stock books to distinguish between the two different rulings, and not because they are really the ledgers to be used in the methods named.

TRANSACTIONS FOR DECEMBER.

Record the following transactions in the Single Entry day book and cash book, and post to the ledger when instructed. Accounts will be kept only with Notes Receivable, Notes Payable, C. W. Ogden Capital, and persons from whom merchandise is purchased on account, and those to whom merchandise is sold on account.

1. C. W. Ogden invests $1,500.00 in the retail stationery and office supplies business.

Enter in the cash book as in Illustration No. 148.

2. Bought from W. H. LaRue, City, stock of stationery and office supplies for $2,250.00, paying cash $1,000.00, two notes of $500.00 each, due in 60 and 90 days, balance to be paid before January 1st.

Enter in the day book and cash book as in Illustrations Nos. 147 and 148.

3. Bought from Belknap Stationery Co., Louisville, on account, stationery per invoice of this date, $150.00.

Enter in the day book as in Illustration No. 147.

Credit sales: C. G. McClure, City, 1 section, base, and top, Y. & E. files, $25.00; 1 gross note books, $17.50. University School, University Park, 1 multigraph, $170.00; 1 doz. ribbons, $5.00.

Enter in the day book as in Illustration No. 147.

(*Continued on page 293.*)

(*December Transactions—Continued from page 292.*)

4. Bought from Graham Paper Co., St. Louis, stationery per invoice of the 3d, $196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days; and if not, the full amount is due in 30 days.

5. Paid Gouffon Transfer Co. $14.87, freight and drayage on above goods.

Enter in the cash book as shown in Illustration No. 148. No account is kept with Freight and Drayage, hence the check mark (√) in the L. F. column.

6. Credit sale: C. J. McDaniels, City, 1 ledger, $3.50; 1 doz. pencils, 75c; 2 bxs. typewriting paper at $1.00; 1 dictionary, $14.00.

Paid W. H. LaRue $150.00 on account, and employees' wages to date, $65.40.

Cash sales to date, $204.09.

Post to the ledger. All amounts in the second column of the day book are posted to the debit or credit side of the account written on the same line with them; the debit or credit is indicated by "Dr." or "Cr." Post each amount in the first column of the cash book to the credit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Post each amount entered in the second column of the cash book to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Stationery Co., Cincinnati, merchandise per invoice of the 6th, $264.75; terms, 5/10, n/60.

9. Credit sale: R. R. Oglesby & Co., Hamilton, 1 typewriter, $100.00; 1 desk, $35.00; 5 gross note books at $14.00; 2 sections Y. & E. files with top and base, $64.00.

10. Received $175.00 from University School in full of account.

11. Paid electric light bill, $13.60; phone rent, $6.00, and stamps, $5.00.

Credit sales: Ormendorff Bros., City, 1 set of Dickens, $70.00. City Electric Co., City, 1 gross tablets, $17.00; 3 sections Y. & E. files at $14.00; 1 desk, $36.00; 5 ink wells at 25c.

12. Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 10th, $136.42; terms, 60 days. Bought from Johnston Bros., City, on account, 5 gross mucilage at $2.50.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book as in Illustration No. 148; debit the Graham Paper Co. with the full amount of the invoice in the second column, and on the line below, write "Discount" and enter the amount in the first column. Unless this is done, their account might be debited with the net amount of cash only, in which case it would not balance.

Credit sales: M. B. Arnstein, City, 2 gross tablets at $17.75; 1 desk, $39.50; 2 sections Y. & E. files at $14.00. Bean, Waters & Co., City, 3 gross tablets at $14.00; 1 box typewriting paper, $1.00.

Withdrew $50.00 for private use.

Paid employees' salaries for the week, $86.45; Gouffon Transfer Co., $32.65, freight and drayage to date.

Cash sales to date, $291.76.

Post from the day book and cash book as instructed on the 6th, and check the posting from the 1st to the 6th.

(*Continued on page 294.*)

(*December Transactions—Continued from page 293.*)

15. Collected from the following parties: C. G. McClure, $42.50; C. J. McDaniels, $10.00; Ormendorff Bros., $50.00; City Electric Co., $70.00.

Credit sales: C. G. McClure, 5 gross tablets at $14.00; 1 desk, $57.50. H. O. Nelson, City, 1 typewriter, $100.00; 1 gross penholders, $5.00; 5 bxs. typewriting paper at $1.00; 10 lbs. writing paper at 25c.

16. Paid American Stationery Co. $175.00 on account.

This is subject to 5% discount as per terms. Be sure to charge them with the correct amount, which will be more than that paid.

Credit sale: Central Business College, City, 5 gross note books at $14.00; 1 gross tablets, $30.00; 1 gross penholders, $4.00; 8 gross ink at $3.75.

17. R. R. Oglesby & Co. gave us their note due in 30 days for $200.00 to apply on account.

Note that this transaction involves a debit and a credit. Enter in the day book.

Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 11th, $1,254.78; terms, 60 days.

18. Credit sales: C. G. McClure, 3 typewriters at $100.00; 1 gross pens, $5.00; 1 doz. ribbons, $7.50. W. R. Austin, Wilmington, 1 journal, $6.00.

Bought from Graham Paper Co., stationery per invoice of the 15th, $136.49; terms, 3/10, n/30.

19. Accepted Yawman & Erbe Mfg. Company's 60-day draft in full of invoice dated December 10th.

Note that this transaction requires a debit and a credit. Enter in the day book.

Paid W. H. LaRue $50.00 on account.

Credit sales: Ormendorff Bros., 1 desk, $35.00; 1 gross note books, $18.00; 3 sections Y. & E. files at $14.00. W. H. Pedigo, Danville, 1 desk, $45.00; 1 chair, $12.50; 3 gross tablets at $17.50; 100 blotters, 25c.

20. Bought from Yawman & Erbe Mfg. Co., merchandise per invoice of the 18th, $234.75; terms, 4/10, n/30.

Cash sales to date, $408.50.

Withdrew $75.00 for private use; paid employees to date, $92.75.

Post from the day book and cash book as instructed on the 6th, and check posting from the 6th to the 13th.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, $100.00; Central Business College, $100.00.

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less $3.00 discount.

Enter the face of the note in the first column, and the discount in the second column of the cash book.

23. Credit sale: University School, 3 gross note books at $17.00; 2 gross penholders at $5.00; 5 gross pencils at $4.00; 100 lbs. writing paper at 20c; 1 ledger, $2.75.

Paid W. H. LaRue balance due him.

24. Bought from American Stationery Co., merchandise per invoice of the 22d, $186.75; terms, 5/10, n/60.

(*Concluded on page 295.*)

(December Transactions—Continued from page 294.)

24. Credit sales: Central High School Supply Store, City, 2 gross journals at $20.00; 2 gross ledgers at $20.00; 5 gross note books at $14.00; 10 gross penholders at $5.00; 5 gross pencils at $4.55; 2 gross ink at $4.00. City Electric Co., 1 duplicator, $75.00.

Sent Graham Paper Co a check in full of account, less discount.

26. Central High School Supply Store settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

Paid Belknap Stationery Co., $75.00 on account.

Bought from Standard Stationery Co., Cincinnati, merchandise per invoice of the 23d, $62.75; terms, 60 days.

27. Sent Yawman & Erbe Mfg. Co. a New York Exchange in full of invoice dated the 18th, less 4% discount. The bank charged 50c for issuing the exchange.

Credit sale: H. O. Nelson, 1 typewriter with special keyboard, $105.00.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, $169.25; terms, 3/10, n/60.

31. Cash sales to date, $268.15.

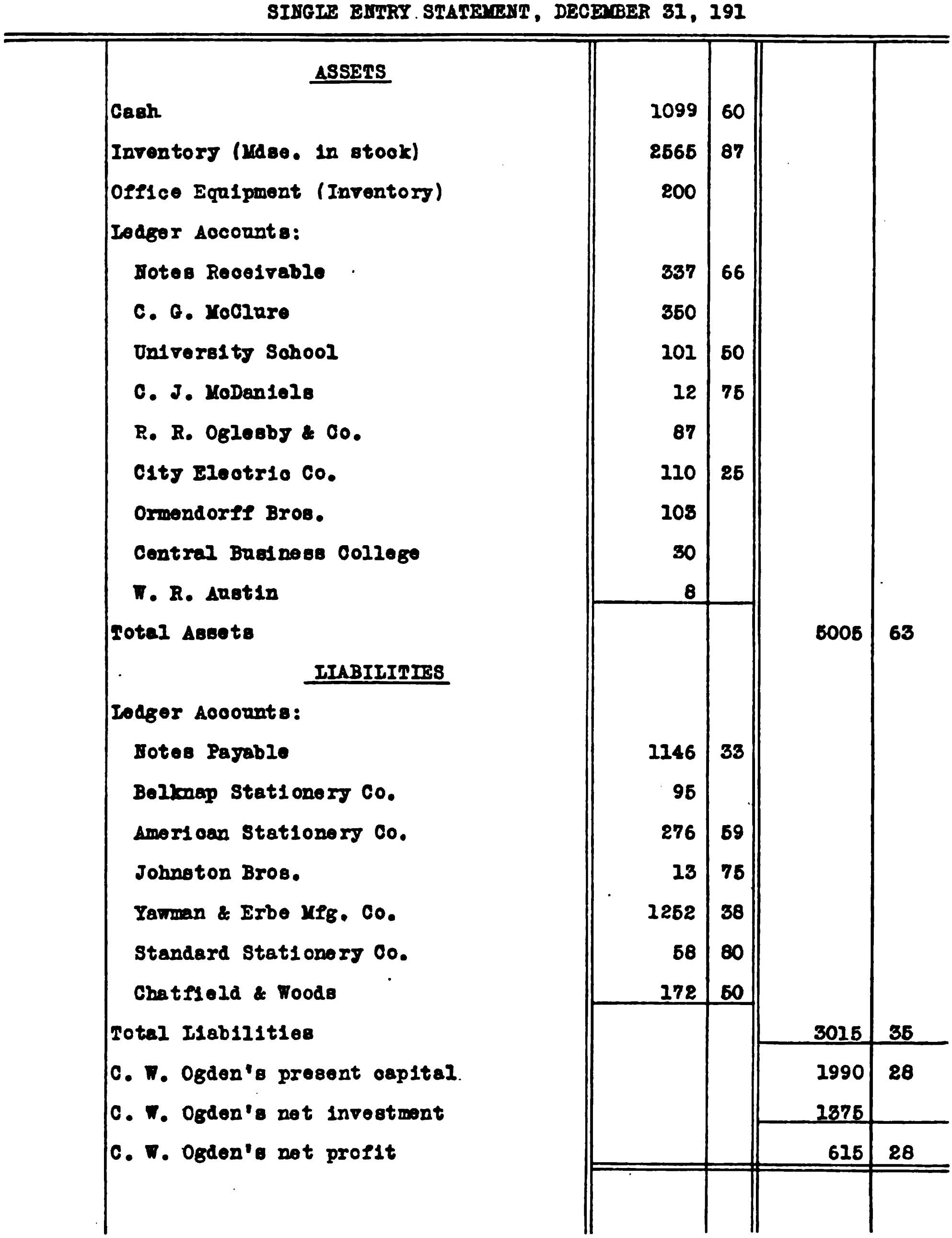
Paid employees to date, $86.27; rent for the month, $50.00; Gouffon Transfer Co., $62.75, freight and drayage to date.

31. Have decided to change the books from Single Entry to Double Entry. Make a statement of the assets and liabilities, using the following inventories: Merchandise in stock, $2,565.87; Office Equipment, consisting of desks, chairs, safe, etc., $200.00. When you have completed the statement, make the entry to change the books from Single Entry to Double Entry.

Post and check all items to date, and make a Statement of the Business as explained in § 380 and Illustration No. 149. Close the ledger as instructed in § 381, and make the opening entry in the journal to change to Double Entry as explained in § 382 and shown in Illustration No. 150. When this is completed, post the items to the ledger, take a Trial Balance and present all books for approval.

§ **380. Single Entry Statement.** The net profit or net loss can always be ascertained whether the books are kept by Single Entry or Double Entry. If kept by Double Entry, the profit is ascertained by making the Balance Sheet, and Profit and Loss statement, and is not accepted as correct until the results as shown by these statements agree. Since only those accounts showing an asset or a liability appear on the Single Entry ledger, the net profit or net loss can be ascertained by making the Financial statement, usually termed "Statement of Assets and Liabilities," but there is no means of proving that it is correct.

To make a Single Entry statement proceed as follows: First, ascertain the value of all property on hand by taking an inventory. Second, list all the assets and liabilities. As nothing but asset or liability accounts are kept, all the debit balances are assets, and all the credit balances, except the investment, are liabilities. Third, ascertain the difference between the assets and liabilities; this is the present worth of the business. If it is more than the net investment, there is a profit; if less, a loss. Illustration No. 149 shows the correct form of a Single Entry statement.



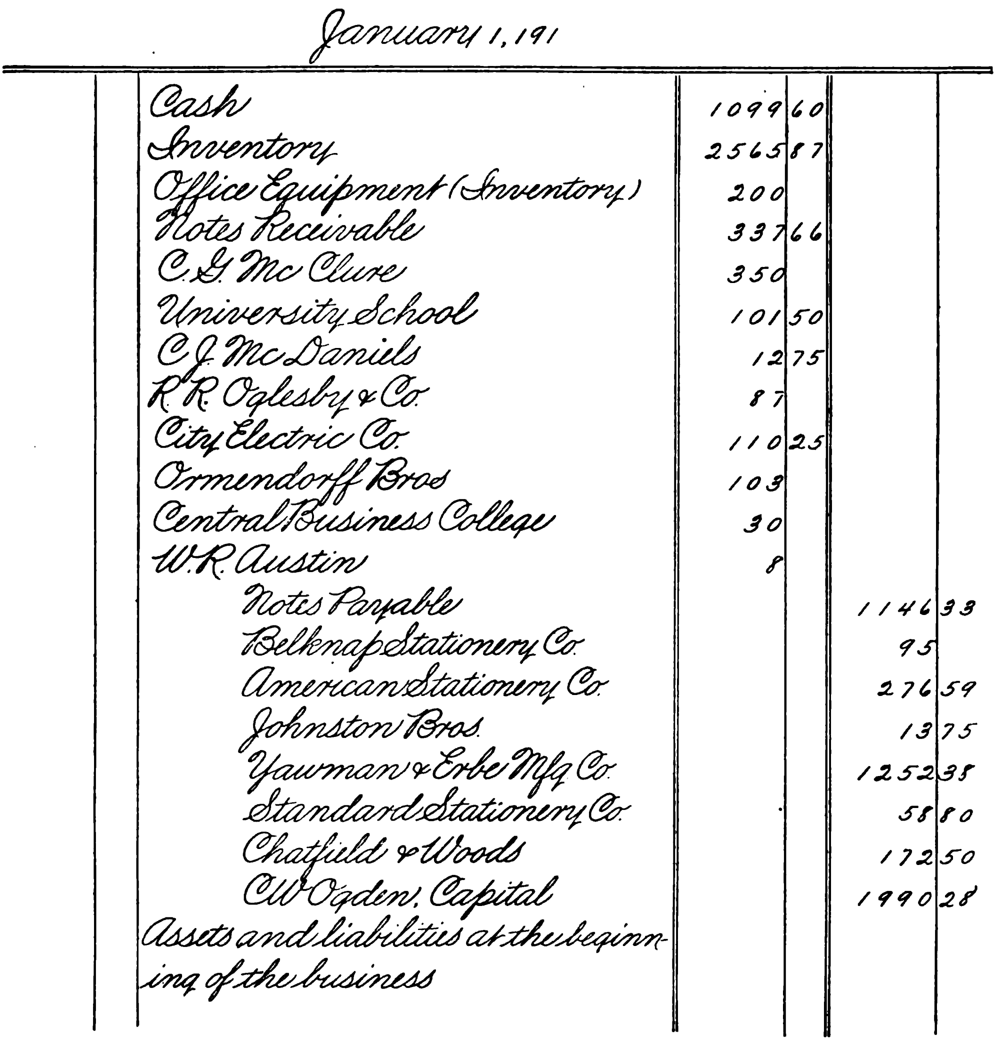
SINGLE ENTRY STATEMENT, DECEMBER 31, 191

ASSETS				
Cash	1099	60		
Inventory (Mdse. in stock)	2565	87		
Office Equipment (Inventory)	200			
Ledger Accounts:				
Notes Receivable	337	66		
C. G. McClure	350			
University School	101	50		
C. J. McDaniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros.	103			
Central Business College	30			
W. R. Austin	8			
Total Assets			5005	63
LIABILITIES				
Ledger Accounts:				
Notes Payable	1146	33		
Belknap Stationery Co.	95			
American Stationery Co.	276	59		
Johnston Bros.	13	75		
Yawman & Erbe Mfg. Co.	1252	38		
Standard Stationery Co.	58	80		
Chatfield & Woods	172	50		
Total Liabilities			3015	35
C. W. Ogden's present capital			1990	28
C. W. Ogden's net investment			1375	
C. W. Ogden's net profit			615	28

Illustration No. 149, Single Entry Statement.

§ 381. **Closing the Ledger.** As each account in the ledger, except the proprietor's Capital account, shows an asset or a liability, the proprietor's Capital account is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained in § 44, ¶ 10. The profit is entered on the credit side, or the loss, on the debit side, with red ink, the account ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down in black ink on the credit side.

§ 382. **Changing from Single to Double Entry.** When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained



January 1, 191

Cash	1099	60		
Inventory	2565	87		
Office Equipment (Inventory)	200			
Notes Receivable	337	66		
C. G. Mc Clure	350			
University School	101	50		
C. J. Mc Daniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros	103			
Central Business College	30			
W. R. Austin	8			
Notes Payable			1146	33
Belknap Stationery Co.			95	
American Stationery Co.			276	59
Johnston Bros.			13	75
Yawman & Erbe Mfg Co.			1252	38
Standard Stationery Co.			58	80
Chatfield & Woods			172	50
C. W. Ogden, Capital			1990	28
Assets and liabilities at the beginning of the business				

Illustration No. 150, Journal Entry to change from Single Entry to Double Entry.

in §§ 380 and 381. A journal entry is made from this statement, debiting all accounts that show an asset, and crediting those showing liabilities, and the proprietor for the investment. This journal entry will balance, since the total liabilities, plus the present worth of the proprietor equal the assets. When the accounts are opened in the ledger, write the word "Inventory" in the explanation column of those accounts which were not kept in the Single Entry ledger. In this set these are Inventory (merchandise on hand), Office Equipment, and Cash. After all the accounts are opened in the ledger, a Trial Balance is taken to prove that the books are in balance. See Illustration No. 150.

QUESTIONS.

1. Define Single Entry bookkeeping. (§ 374.)
2. What class of accounts are usually kept? (§ 374.)
3. When does a transaction have a debit and credit? (§ 374.)
4. Can you explain why there is really no such method as Single Entry? (§ 374.)
5. Compare the Single Entry and Double Entry method. (§ 375.)
6. Name some of the advantages of Double Entry. (§ 375.)
7. What blank books are usually used in a Single Entry set? (§ 376.)
8. Define a single entry day book. (§ 377.)
9. Define a single entry cash book. (§ 378.)
10. Define a single entry ledger. (§ 379.)
11. Distinguish between the stock "Single Entry" and "Double Entry" ledgers. (§ 379.)
12. What statement can be made from a single entry ledger? (§ 380.)
13. Describe the method of making this statement.
14. Why is it that the bookkeeper can not prove the correctness of a single entry statement? (§ 380.)
15. Describe the method of closing the single entry ledger. (§ 381.)
16. Describe the method of changing a set of books from Single Entry to Double Entry. (§ 382.)
17. What will the journal entry required to make the change show? (§ 382.)
18. Does the bookkeeper who keeps his books by the Single Entry method have any means of proving the correctness of the work?
19. Would Single Entry be satisfactory in a business where a large number of transactions are to be recorded?
20. Which method do you think is best? Give three reasons for your answer.

ALPHABETICAL INDEX.

SECTIONS, ILLUSTRATIONS AND EXERCISES

NUMERICAL INDEX.

SECTIONS.

ILLUSTRATIONS

EXERCISES